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Policy Review

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COLIN S. GRAY

The Government versus the Entrepreneur
JAY VAN ANDEL & RICHARD M. DEVOS

The Politics of Cancer
ELIZABETH WHELAN

Rethinking the Multilateral Development Banks
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Inside Policy Review

COLIN S. GRAY is a professional staff member of the Hudson Institute of New York (directed by Herman Kahn) and has served as an assistant director of the International Institute for Strategic Studies in London. A Heritage Foundation Adjunct Scholar, he is the author of *The Soviet-American Arms Race* (1976) and a contributing author of *U.S. Strategy in the Decade Ahead* (1978).

Mr. Gray is concerned with the overall significance of the SALT II bargain. In this article, he maintains that those involved in the SALT debate, both pro and con, are preoccupied with what could be termed the trivial technicalities of the issue. Granted, the technical questions—those concerning ICBM allocations and cruise missile transfers—are *not* trivial problems in their own right, "but they are not the kind of issues on the basis of which the U.S. Senate should be expected to make what people believe to be one of the most important foreign policy decisions of the twentieth century." Mr. Gray believes that SALT II is a bad bargain for Western interests for more far-reaching reasons. ". . . The terms of the treaty are irrelevant to the scale, timing, and sophistication of the military threat." Mr. Gray suggests that "rejection of SALT II . . . would be appropriately symbolic of a new realism and seriousness in U.S. defense policy."

JAY VAN ANDEL is the Chairman of the Board for the Amway Corporation, and Chairman of the Board of the U.S. Chamber of Commerce. He holds an Honorary Doctorate of Business degree from Northern Michigan University and an Honorary Doctorate of Laws degree from Ferris State College. Mr. Van Andel has served as Director of the Business-Industry Political Action Committee, in Washington, D.C. RICHARD W. DE VOS is President of Amway Corporation. He holds honorary Doctor of Laws degrees from Oral Roberts University, Grove City College, and Northwood Institute and is the author of a book entitled *Believe.* His recorded talk, "Selling America," has received many awards, including the Alexander Hamilton Award for Economic Education from the Freedoms Foundation.

Messrs. Van Andel and DeVos argue that government regulation has, ironically, resulted in increased costs to the consumer and the denial of products that have value to the public. Small business people, in particular, find themselves stifled by government regulations. The authors cite the cost of compliance to those rules as more than $3600 per year for each small business person in the country; "for every dollar the government spends to enforce regulation," say the authors, "twenty are spent to comply. The capital invested in compliance cannot be used for new plants, equipment, or research, and costs must necessarily be passed on to the consumer." To reform this system of regulations which "has become so onerous that it wreaks havoc in the lives of all Americans," the authors suggest that Congress must assume veto power over regulations and enact

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sunset legislation, establishing the date upon which each regulatory body will be terminated.

DR. ELIZABETH M. WHELAN, author of *Preventing Cancer,* is a Research Assistant at the Harvard School of Public Health and is Executive Director of the newly formed American Council on Science and Health, an association of scientists dedicated to promoting evaluations of the relationships of chemicals, the environment, and human health.

Contrary to popular belief, states Dr. Whelan, food additives, pesticide residues, and water and air pollution represent almost no cancer threat in comparison to cigarette smoking (which accounts for 30–35% of cancer deaths) and dietary excesses (which account for another 30–35%). The Delaney Clause, and regulations of the Environmental Protection Agency and the Occupational Safety and Health Administration, which seem so intent on eliminating all carcinogens at any cost, could at best reduce cancer mortality by 0–5%. This highly restrictive, inflexible, and expensive government regulatory system detracts attention from the real war on cancer, one that might provide us with a safer cigarette or a better understanding of how disease and diet might be linked. The cost of the war on cancer that is currently being fought is "an enormous price tag for nothing."

WILSON E. SCHMIDT is professor of economics at Virginia Polytechnic Institute and State University in Blacksburg, Virginia. He was Deputy Assistant Secretary for Research on the international side of the U.S. Treasury in the early 1970s. He has held academic appointments at The George Washington University, the School of Advanced International Studies of The Johns Hopkins University, and The Johns Hopkins Bologna Center.

In this article Professor Schmidt reviews some of the suggestions made in the Congress for improving the multilateral development banks, such as the World Bank. In a number of cases he finds the analysis underlying the suggestions significantly incomplete. He further argues that the institutions should declare dividends and demonstrates that the soft loans by these institutions are inefficient.

ERNEST VAN DEN HAAG is Visiting Professor of Criminology in the Law School of the State University of New York at Albany. Besides contributing to *Ethics, Encounter, The American Scholar, Commentary* and many other journals, he is the author of *Punishing Criminals, Political Violence and Civil Disobedience* and other books. He is a member of the Council on Foreign Relations, and of the *Policy Review* editorial board.

In *Policy Review,* Dr. van den Haag argues that there is no good sociopolitical reason for government to compel taxpayers to subsidize the arts. Opera, classical music, ballet, and museum art—only marginal to American culture—have never played an important role in history or in

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celebrating our national bonds. And jazz, rock music, baseball, television, and sports—much more important in the celebration of American values—need no subsidy. Government subsidies may even harm the arts, Dr. van den Haag argues. Unable to judge bad from good art, the government, by allocating subsidies indiscriminately, will make it harder for the true artist to succeed; he is likely to "be undone by those who, consciously or unconsciously, are interested mainly in money," by the "more worldly-wise, better competitors."

DAN C. HELDMAN, formerly a professor of political science at Texas Christian University, is now senior analyst with the Policy Research Associates (Fairfax, Virginia). He is the author of several books on labor unions and labor policy.

The Congress, executive regulatory agencies, and courts have piled up a mountain of laws, regulations, and decisions affecting the activity of labor unions, without essential research and data fundamental to formulating such policies. This lack of essential information is, in part, due to political preconceptions, wishful thinking, and the attitude among some scholars that relevant issues are settled. It is also due to the unions themselves, which "have been able to maintain a secrecy that extends not only to the general public but even to their own members." Those attempts by scholars to dispel this secrecy are hardly helped by the Department of Labor which, by accepting unaudited union data and suppressing other data, belies a "disinterested" position Even the ultimate justification of unionism—that it produces economic benefits—in absence of verifiable data and objective examination, remains enshrouded in the vested interest of union leadership.

RONALD BUTT is an editorial writer for the London *Times* and the *Sunday Times,* and a regular contributor to numerous journals.

Mr. Butt claims in his article that a new Left elite is, and has been for the last decade, flourishing in Britain as a "class" of intellectual leaders. This new elite has been able to influence politicians, thus influencing resulting laws and policies. However, as Mr. Butt points out, "It is not simply the waste of public money that matters. No less important is the fact that it can be used to manipulate taste and social attitudes." The article contains several examples of just how this elite is able to spread its ideas throughout society by influencing various legislative and grant allocation practices—"quango" (quasi-autonomous national government organizations) patronage being one of the most widespread vehicles. Mr. Butt warns that the influence of this fashionable new "class" has been instrumental in the decay of traditional foundations of British society, "often ridiculed as middle-class values," and has involved "the by-passing of the proper processes of democracy . . . and that is damaging to confidence in our institutions."

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PETER BAUER is a professor at the London School of Economics, a Fellow of Gonville and Caius College, Cambridge, and a Fellow of the British Academy. He is co-author (with B.S. Yamey) of *The Economics of Under-Developed Countries* and a regular contributor to scholarly journals on both sides of the Atlantic.

Throughout the Third World, central planning is firmly supported by intellectuals and politicians as the *sine qua non* of economic progress. Despite the extraordinary success of the free market in Japan, Malaysia, Hong Kong, and Singapore, and the parallel failures of socialism, the planned economy has a special allure for elite groups in the less developed countries. The doctrines associated with socialist planning have proven useful for ambitious politicians seeking to explain the continuing poverty of their nations. But the assumption that central planning is necessary to raise incomes and living standards is unfounded. "Central planning does not augment resources, but only concentrates power."

NATHAN GLAZER is Professor of Education and Sociology at Harvard University, and a co-editor of *The Public Interest.* Elaborating on Bauer's theme, Glazer probes the mystery of anti-market ascendency in Western academic circles.

Mr. Bauer's essay is based on an article entitled "Hostility to the Market in Less Developed Countries," which appears in *Capitalism: Sources of Hostility,* edited by Ernest van den Haag (Epoch Books, 1979). Mr. Glazer's comments are reprinted from the same book.

Book reviews were written by JAMES A. MCCLURE (U.S. Senator from Idaho and member of the Energy and Natural Resources Committee), ALAN REYNOLDS (who is a vice president at the First National Bank of Chicago), ANDREW CHALK (a member of the Department of Economics at Washington University), ANDREW ALEXANDER (who writes for London's *Daily Mail*), PHILIP F. LAWLER (managing editor of *Policy Review*), and ROBERT BLAKE (assistant editor of *Policy Review*).

It is, of course, gratifying to have one's name decorating the masthead of a magazine as lively and distinguished as Policy Review. But I would be less than honest if I allowed that distinction to imply that I was largely responsible for the excellence of this issue. Before his departure, Robert Schuettinger, my predecessor and the founding editor of *Policy Review,* had implanted or commissioned most of the articles which follow. Others were arranged in the interregnum by Philip Lawler, our new managing editor, and by Beverly Childers, our assistant editor who is now departing, alas, to enliven academic life. Together with Robert Blake, Marion Green, and Jane Kessler, they put the present issue to bed, leaving me the not very onerous task of dotting the i's and crossing the t's. I am grateful for their polished production, and look forward to working with them in the future. And I hope for future contributions from Bob Schuettinger's caustic wit, which an editorial modesty has allowed to appear all too seldom.

—John O'Sullivan

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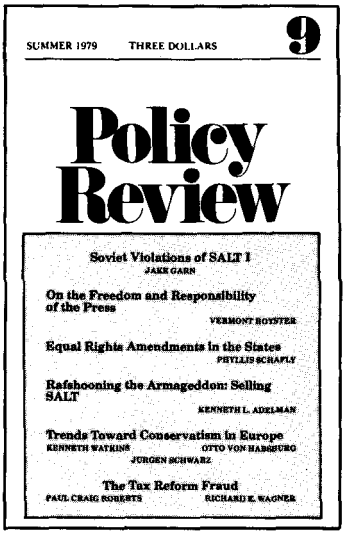

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SALT II: The Real Debate

COLIN S. GRAY

The "great SALT debate"[1] of 1979 is almost as pathetic as was the phenomenon of the United Kingdom and the United States busily engaged in disarming each other (through arms control agreements) in the 1920s and 1930s. On fairly narrow technical grounds SALT II is not a good bargain for the United States, but one can well understand why senators might be relatively unmoved by technical arguments apparently at the margin of strategic significance. To reject SALT II outright or to return it for very substantial renegotiation would be acts of high political courage – justifiable only on the most serious of political grounds. There is a paradox in that the strong critics of SALT II are correct in their technical assessments, yet they are failing to present arguments with which most skeptical senators would feel comfortable as a basis for treaty rejection or very basic amendment.

In an important sense, our problem is the nature of the SALT exercise. The issue before the U.S. Senate is this particular SALT II treaty and its directly associated documents.[2] Conservative critics have yet to say this, but it happens to be true that SALT II, warts and all, probably is the treaty that we deserve. It is a fair and balanced treaty – given the unequal momentum in the strategic programs of the United States and the Soviet Union over the past decade.[3] If, as most commentators believe, SALT is really in the business of registering facts or very plausible future facts, one can hardly complain if a lengthy

1. The SALT literature is now both vast in quantity and highly repetitive in content. This article and its footnotes are intended to function neither as a guide to the debate, nor as a primer on the technical detail of SALT issues. This author assumes that readers have easy access to or are broadly familiar with treaty terms and rival arguments over their merits.

2. All references in this article to the SALT II texts will be to U.S. Department of State, *SALT II Agreement,* Vienna, June 18, 1979, *Selected Documents* No. 12A (Washington, D.C.: U.S. Government Printing Office, June 1979).

3. A very similar thought may be found in Richard Burt, "The Scope and Limits of SALT," *Foreign Affairs*, Vol. 56, No. 4, July 1978, p.761.

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period of U.S. self-restraint in strategic programs comes to be reflected in a treaty that is technically unbalanced in the Soviet's favor. To reject SALT II is analogous to the ancient practice of executing the bearer of ill tidings.

In SALT II the West is reaping, on paper, the just rewards for protracted complacency and poor judgment. What should concern us is the strong possibility that the decade of the 1980s will see the West reap its just rewards in terms of crises or a war that would be lost. Strong opponents of SALT II, with no major exceptions, are suffering from a quite excessive, if not pusillanimous, timidity. The Senate testimony that is generally critical of SALT II has tended to focus upon what may be termed the technical trivia of the agreement. The treaty and its protocol are criticized, correctly, for permitting the Soviets a modern heavy ICBM allocation (of 308) that is not permitted the United States; for failing to count the *Backfire* bomber; and possibly for mortgaging our future freedom of action with respect to land-mobile ICBM deployment and cruise missile transfer to our allies in NATO. These and related issues are *not* trivial in technical terms, but they are not the kind of issues on the basis of which the U.S. Senate should be expected to make what many people believe to be one of the most important foreign policy decisions of the twentieth century.[4]

So long as SALT II's opponents confine themselves to a narrow debate of the technical demerits of the treaty package – real though they are – they invite, and indeed perhaps even deserve, political defeat.

Consider the questions which both sides of the SALT II debate appear to have accepted as being the right questions to ask:

– Is the agreement balanced?
– Is the agreement adequately verifiable?
– Will the agreement save money on a noteworthy scale?
– Will this agreement lead to better agreements in the future?

The supposed importance of these questions may be judged in light of the following comments: balance in an agreement

4. SALT II, pro or con, is a decision extremely unlikely, in retrospect, to be worthy of this characterization. However, many senators claim that the decision is of this character – and it is the belief that matters, in this context.

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should be of little interest if the United States and the Soviet Union place very different foreign-policy burdens on their strategic forces; verification of what may be a poor agreement should be a matter of less than pressing concern (on current trends, is there real merit in being able to verify our slide into inferiority?); if the agreement does not constrain the Soviet military threat in useful ways for a useful period of time, it is difficult to see how there can be any relevance to the question of whether it will or will not save us money;[5] finally, one's credulity is stretched severely if one is expected to endorse the proposition that technically flawed agreements bereft of strategic merit will somehow lead to future substantive agreements of which we could approve.

In and of themselves, the texts of the SALT II package are not fraught with disastrous implications for the West — the Administration, quite rightly, points to the freedom of research, development, testing, and development action that we have, in theory, secured (at least after the Protocol expires). *The* issue is not so much what we are allowed to do, but rather what we will choose to do. However, the issue, in reality, will not be quite as simple as that. The very existence of an arms control framework tends to have a negative effect upon orderly and strategically intelligent defense planning. Moreover, since much of the SALT II debate relates to those options that the United States could elect to pursue under the SALT umbrella, one is driven to predict the character of the national security policy team, which will administer the American end of the central strategic balance after January 1981.

Pie Tomorrow

The U.S. defense community, in its convulsions over SALT II and its early planning contortions over ideas for SALT III negotiations, is, *de facto*, refusing to recognize the obvious. Specifically, SALT is at best an irrelevance to international security and at worst a needless complication.[6] Slightly to re-

5. The oft-repeated claim that SALT II will save the U.S. many billions of dollars has to be either fraudulent (known to be false by its purveyors) or plain foolish. Since SALT II does not constrain the Soviet offensive-weapon threat (and is silent on such subjects as civil defense and air defense), why should the U.S. spend more in its absence?

6. A commentator in a generous mood might choose to see SALT as an adornment of the diplomatic scene — as a point of contact between East and West, perhaps of some symbolic value in and of itself.

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phrase the old adage: a fanatic is a person who redoubles his effort when the objective has been forgotten (or has long been proved to be unattainable). Without in any way impugning the worthy ends of arms control – to reduce the risk of war, to reduce the damage likely to be suffered in war, and to reduce the burden of peacetime defense preparation – there is now sufficient evidence available to persuade a reasonable person that East-West arms control negotiations cannot usefully forward those ends.[7] The Administration holds out great hopes for a far more satisfactory SALT III. But, if the Superpowers really are bent upon achieving a more stable balance of strategic nuclear power, why not begin now in 1979?[8] Why wait until SALT III? Anyone who seeks to argue that the Soviets are on board for some facsimile of Western stability theory[9] has a major problem explaining why the six and a half years of SALT II negotiations failed to bring forth an agreement that had any merit from the perspectives of technical arms race or crisis stability.

The SALT II debate, by its very structure, favors the astrategic reasoning of the proponents of the arms control regime in question. It happens to be the case that every major argument advanced in support of SALT II is either easily proved to be false or, alternatively, is of a trivial kind. However, the relatively easy demolition of the official case for SALT II is, alas, not synonymous with the presentation of a persuasive case for treaty defeat. For example, it is an elementary matter to demonstrate that SALT II cannot contribute to strategic stability, but it is a little more difficult to prove that SALT II will contribute to strategic instability. The continuous enthusiasm for the SALT process in the West needs to be explained by a psychologist, not a defense analyst. Given the (non-negotiable) Soviet

7. For a very useful analytic history of the sad record of arms control, see Robin Ranger, *Arms and Politics, 1958-1978: Arms Control in a Changing Political Context* (Toronto: Macmillan of Canada, 1979).

8. Why not begin before the Soviets complete the deployment of their MIRVed fourth-generation ICBMs and before the U.S. MX ICBM program achieves a momentum that would be very difficult to arrest?

9. Just such a view is Raymond L. Garthoff, "Mutual Deterrence and Strategic Arms Limitation in Soviet Policy," *International Security*, Vol. 3, No. 1, Summer 1978, pp. 112-47. Far more plausible is Fritz W. Ermath, "Contrasts in American and Soviet Strategic Thought," *International Security*, Vol. 3, No. 2, Fall 1978, pp. 138-55.

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conflict-oriented perspective upon the outside world and given the war-fighting focus of Soviet military science,[10] there was and is no way in which the U.S.S.R. could be brought to endorse the SALT-regime parameters, which would impact negatively upon its future ability to prosecute crisis and war successfully.[11]

Noticeably absent fron the SALT II debate is any substantial discussion of strategy. Harold Brown, as point-man for the Administration, has impressive credentials as a defense scientist, but he has little credibility as a strategist. A major problem with SALT is that it focusses attention upon strategically irrelevant issues. For examples: why should it matter whether or not the agreement is closely balanced in its terms? The United States requires a strategic force posture that could take the strategic initiative, dominate a process of escalation, and limit damage to the American homeland. These are serious questions. Much less serious questions would pertain to the true "balance" achieved in a SALT II regime, the verifiability of that regime, and the prospects for follow-on negotiations. Lurking behind the detail of the SALT II debate are fundamental issues of strategic adequacy.

In his testimony before the Senate Foreign Relations Committee on July 31, 1979, Henry Kissinger managed to transcend much of the secondary detail and assert that even a SALT II that provided for a true Soviet-American equivalence in strategic forces would constitute a radical departure from the traditional basis for the security of the Western Alliance. A strategically equivalent posture for the United States is not compatible

10. See Joseph D. Douglass, Jr. and Amoretta M. Hoeber, *Soviet Strategy for Nuclear War* (Stanford, Cal.: Hoover Institution, Stanford University, 1979).

11. Robert Legvold has argued that the Soviets are so insistent upon preserving freedom of strategic planning action that they prefer to leave U.S. capability unconstrained rather than accept serious constraint themselves. "Strategic 'Doctrine' and SALT: Soviet and American Views," *Survival*, XXI, No. 1, January/February 1979, pp. 8-13. However, the ABM clearly is a major contrary case, and one wonders what the Soviet SALT response would be, say, to an 800-strong MX ICBM program that unambiguously was underway and/or to a 500-strong B-1 bomber program that had a hot production line. Soviet war-fighting reasoning should suggest an arms-control position that would offer major constraints on prospective Soviet counter-force powers.

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with the foreign policy duties that the United States continues to place upon its strategic forces. Unfortunately, as Kissinger recognized, there are no solid grounds for assuming that even a bare equivalence in strategic nuclear capability will be maintained through the mid-1980s. There is a growing consensus that, come the mid-1980s, the Soviet Union will be well ahead in every important category of relative strategic force measurement. Moreover, there is an even stronger consensus that the Soviet Union is ahead and will stay ahead in the conventional and theater-nuclear capabilities that bear upon western Europe. Deficiencies in theater defense capability traditionally have been deemed tolerable because of the assumption that an enduring U.S. strategic nuclear superiority yielded compensating, persuasive/coercive, first-strike potential. Indeed, it is worth recalling that even as late as December 1975, with its advancing of "Option III" in MBFR,[12] NATO appeared to be assuming that it enjoyed a permanent advantage in theater-nuclear delivery systems – in both quality and quantity. NATO indicated a willingness to trade some of its long suit (1,000 nuclear warheads, 54 F-4 *Phantoms* and 36 *Pershings*) for a Soviet tank army (69,000 men and 1,700 tanks).

"Option III" is still on the table, becoming dustier and dustier, as the basis for its negotiability has declined very rapidly. While NATO has waited for a promising Soviet response, the Soviets methodically have been engaged in modernizing every item in their theater-nuclear arsenal (and adding some new items, such as three calibers of self-propelled nuclear-capable artillery). The major prize in Soviet-American competition, western Europe, is seeing the basis for its military security eroded both by the evolution of the strategic balance and by the ratification and encouragement of that evolution through the SALT process. In a very real sense, SALT and the details of U.S. strategic posture and doctrine concern the security of forward placed allies and friends, rather than the physical safety of the American homeland.[13] The (fast-disap-

12. See *Strategic Survey, 1975* (London:IISS, 1976) pp.110-11; and *Strategic Survey, 1976* (London: IISS, 1977) pp. 11-14.

13. But, an attempt to defend forward-located friends could quite easily embroil the American homeland fatally, if that attempt is made with deficient means. In a real sense, the United States of the mid-1980s might be approaching the condition of Khrushchev's Soviet Union – it

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pearing) margin of usable strategic power and political perceptions of that margin by all interested parties "take up the slack" in local resisting power. As that margin vanishes, what new theory is being advanced within NATO to match its newly impoverished military circumstances?

Long-Term Defense Programs

Through the Long-Term Defense Programs (LTDP), NATO is seeking to avert the slide in the conventional balance; however – as the recently retired SACeur has argued – "the improvements [brought about by the LTDP] have begun to narrow the gap between ourselves and the Warsaw Pact . . . [b]ut they will not close the gap."[14] With respect to theater-nuclear forces (TNF), NATO in its High Level Group is seeking to agree upon the basic design of a modernization program *vis à vis* longer-range TNF, but the European members of the alliance are insistent (for political reasons) upon linking such a modernization program to a TNF arms control initiative (the subject of NATO's Special Group discussion). Meanwhile, as the Soviets deploy, NATO debates. The truth of the matter is that NATO-Europe is not serious about developing a robust-looking in-theater defense capability – it is feared that such a capability, if purchased, might actually weaken deterrence. On the one hand, NATO-Europeans favor local forward deployment of defenses on such a scale that Soviet leaders cannot contemplate the prospect of achieving a rapid *coup de main* with high confidence, but on the other hand, they wish for a very short fuse between initial combat on the Central Front and the employment of U.S. strategic forces. In this context, NATO finds it impossible to develop sensible military requirements for TNF, because most members of the alliance see TNF wholly in a political, rather than a military, light.

In short, there are no prospects worth mentioning of NATO seeking compensation for the slide in the plausibility of the U.S. strategic nuclear guarantee through the development of a doctrine and posture of in-theater victory denial (conventional and/or nuclear). A Great Power may have an ambiguous strategic

would be pursuing a global Superpower foreign policy, without the military means to match.

14. "Haig Speaks Out," *Newsweek*, June 11, 1979, p. 62.

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doctrine, but it should not bluff. Given current weapon program schedules, the United States cannot support its forward allies as NATO's still authoritative concept of flexible response requires. As Henry Kissinger asserted before the Senate Foreign Relations Committee,[15] SALT II is peripheral (or less) to our strategic problems. Unfortunately, the U.S. defense community finds it easier or more convenient to focus upon individual weapon program issues and upon the merits or otherwise of a SALT II then to focus upon strategy.

Strategy should relate power to purpose. The U.S. purpose, in the context of this discussion, is the sustenance of distant friends and allies through the thwarting of Soviet politico-military ambition. Domestic U.S. debate over the MX ICBM and SALT II is almost totally innocent of prospective *operational* considerations.[16] For example, although there is a set of strategic-technical arguments that bear upon the desirability of retaining a large and diversely deployed strategic force posture (with each leg of the force providing a unique threat profile), the purpose behind MX deployment should be the support of U.S. foreign policy, not the perpetuation of a particular structure in the overall force posture.[17] The U.S. needs a strategic force posture adequate, in the perception of all parties, to support U.S. foreign policy goals, explicit and implicit, and it needs a strategic force posture that could be used in action in non-suicidal ways for politically meaningful ends. SALT agreements may or may not assist in the design and maintenance of such a posture (through constraining some kinds of threats and possibly diminishing the economic burden), but they cannot serve, in any important ways, as alternatives to taking strategic questions seriously on their own terms, as strategic questions.

The "hidden agenda" of the great SALT debate of 1979 has little to do with SALT. Put succinctly, the West is approaching the bottom of a slide in its relative military capability *vis à vis* the East. The reason for this is so obvious as to approach banality: through most of the 1970s the Soviets have outspent

15. Testimony on SALT II on July 31, 1979.

16. See Michael Howard, "The Forgotten Dimensions of Strategy," *Foreign Affairs*, Vol. 57, No. 5, Summer 1979, pp. 975-86.

17. See Colin S. Gray, "The Strategic Forces Triad: End of the Road?", *Foreign Affairs*, Vol. 56, No. 4, July 1978, pp. 771-89.

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the United States by thirty to forty on defense functions, while — in particularly sensitive areas — the United States has been outspent on the order of three to one (in strategic nuclear forces, for the leading example). The problem has not been SALT; rather, it has been a lack of understanding of the relevance of military power, a set of foolish strategic doctrinal beliefs, and an absence of public understanding of the scale and nature of future problems that were being invited (which reflects a failure of political leadership). However, it is fair to comment that the SALT process has been unhelpful for Western security.

The very existence of SALT encourages a degree of wishful thinking that should not be encouraged. In recent years the American public has been told by very senior officials that strategic problems essentially have to be resolved unilaterally, but still the SALT process seems to have a rhetorical dynamic all its own.[18]

Strategically meaningless or trivial negotiating outcomes are portrayed as useful steps forward (as though SALT was going somewhere — instead of being a near-permanent partial diplomatic commentary on the state of play in the arms competition), and we are told that the arms control process itself is of great value for world peace. This line of thought encourages SALT-sellers to suggest that opponents of particular SALT agreements are unreconstructed Cold Warriors . . . and so forth. In addition, the SALT institution has the inevitable result — in the U.S. bureaucratic context — of transforming strategic problems into arms control problems. Many weapon programs genuinely do complicate the lives of arms control negotiators. However, we should not worry unduly about such complications, unless arms control can be shown to offer an alternative path (to unilateral defense effort) to national security. The competitive structure of international politics and the expansionist domestic dynamics of the U.S.S.R. are conclusive, fundamental reasons that the promise of East-West arms control can only be extremely modest. U.S. and NATO defense planning, therefore, should be required to accommodate arms control perspectives only to a suitably modest degree.

18. See the superb article by Kenneth L. Adelman, "Rafshooning the Armageddon: Selling SALT," *Policy Review*, No. 9, Summer 1979, pp. 85-102.

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SALTaholism

The case for rejecting SALT II is strong, provided one is willing to elevate the level of argument above the technical detail that has dominated the debate thus far. Insofar as SALT II ratifies facts, the treaty should be rejected because the facts are incompatible with our long-term security. In principle, SALT II is not inconsistent with a sizable rearmament program. However, it is more than a little strange to urge ratification of SALT II on the grounds that the U.S. will behave differently in the future than it has over the past decade. The argument is, of course, advanced that a SALT framework is the guarantor of a very active U.S. strategic-forces program. The facts remain that the West needs the MX ICBM, and it needs cruise missiles deployed in and about western Europe, while SALT II and particularly the future negotiations on a SALT III can only hinder rational Western defense planning without reducing the threat to any worthwhile degree.

The attractions of the SALT process are obscure (almost regardless of one's stance on defense and foreign policy issues). To summarize:

– Soviet strategic behavior, with respect to weapon (and related) programs, has proceeded essentially untouched by SALT considerations. The Soviets have a war-fighting doctrine: they believe in threatening the strategic weapons of the other side and in protecting their essential domestic assets. They have manipulated Western aspirations for detente and arms control for the goal of improving their relative military (and hence political) position.

– Soviet political behavior, at home and abroad, has shown no signs of any benign "linkage" to SALT considerations. The increasingly favorable correlation of forces, in part blessed and ratified by SALT, has licensed the Soviets to be active around the world as never before.

– The SALT process, apparently, has provided no benefits of a strategic-educational kind. American sermonizing on the subject of stability, conducted first by Mr. McNamara (with reference to ABM) in Glassboro in 1967 and most recently by President Carter (with reference, *inter alia*, to civil defense) in Vienna in 1979 – with many lectures, briefings, and conversations in the formal SALT negotiating context in between – appear

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to have fallen upon stony ground.[19]

The abstract merits of arms control are not at issue here.[20] What is at issue is whether or not the SALT process, conducted between live Soviet and American officials, does more harm than good to Western security interests. It is a simple matter to demonstrate that SALT, thus far (and there is a ten-year historical record for examination), has not yielded benefits. However, as SALT critics are finding in the 1979 debate over ratification, it is one thing to prove an absence of gain, but it is quite another to demonstrate, very plausibly, clear cases of damage suffered.[21]

Perhaps the most distressing aspect of the current SALT debate is the noticeable, yet obviously unacknowledged, Western slide into an appeasement mentality. Outside the official U.S. SALT-selling community, there is scant enthusiasm for the SALT treaty or even the SALT process, but people are fearful of the alternative. NATO-Europe does not much like the terms of the SALT II package (since it leaves Soviet deepstrike threats unconstrained, yet sets a precedent for constraint over some NATO responses), but it is afraid that Senate rejection or unacceptable (to the Soviets) amendment of the treaty would usher in a new era of much heightened tension.[22] The Soviets, naturally enough, have been manipulating this anxiety. Even in the United States, the strain of appeasement reasoning is not absent. The U.S. Senate has been advised that if it rejects SALT II, it will ease the path to power for hawks in the Kremlin. (How do we know? Senate rejection and, say,

19. Soviet strategic culture is the product of very deep historical and geopolitical circumstances and is quite impervious to American arms control logic (particularly when that "logic" *requires*, for "stability," that the Soviet Union should eschew any serious attempts to protect its domestic assets).

20. It is not self-evident that those merits are substantial.

21. Most of our wounds have been self-inflicted. In retrospect the greatest "crime" against (Western-style) stability in the 1970s was the Soviet deployment of a > 7,000 lb. throw-weight "light" follow-on to the SS-11. However, the United States had the option of withdrawing from SALT I in protest and/or of accelerating the development and deployment of an appropriate, survivable ICBM reply. See Jake Garn, "The Suppression of Information Concerning Soviet SALT Violations by the U.S. Government," *Policy Review*, No. 9, Summer 1979, pp. 13-20.

22. In NATO-European eyes, apparently, "tension" is deplored – even if that tension is appropriately indicative of real security anxiety.

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a President Reagan launching a rearmament program could well have exactly the reverse effect.) Similarly, we are told that the alternative to SALT II is an unbridled arms race: quite how this unbridled arms race (which was our condition prior to May 1972) has to work to the Western disadvantage is none too clear. Unfortunately, the unbridled arms race argument does have some merit in the sense that we are in such poor condition today *vis a vis* open, let alone warm, production lines for strategic forces that a rearmament drive would bear little fruit for many years.[23] However, for obvious reasons, few SALT II proponents are willing to acknowledge that a major argument for SALT II is the fact that the United States is not in a healthy condition to compete rigorously in the near term. Overall, the argument that our strategic condition would be worse without SALT II amounts to an admission of a lack of U.S. will (which almost certainly is an elite rather than a general problem) and goes a good part of the way to explaining the content of SALT II.

When Soviet leaders (over)hear prominent American defense commentators arguing how much better off the United States will be *with*, as opposed to without, SALT II, they can hardly be encouraged to be accommodating in their negotiating practice. The case against SALT II should be set firmly in the context of the need for a non-incremental Western policy response to a cumulative challenge from the U.S.S.R. The endorsement of SALT II, notwithstanding firm-sounding pro-defense Presidential statements, is almost certain to lead to a business-as-usual attitude towards strategic and theater-nuclear modernization issues. An Administration that cancelled the B-1, delayed the MX ICBM by three years, and postponed indefinitely the production of enhanced radiation weapons is hardly an Administration likely to embrace with determination and conviction a non-incremental response to the military dangers that almost everybody now admits are approaching maturity. Rejection of SALT II would usefully place political distance between the past and the future of U.S. SALT-negotiating policy and would be appropriately symbolic of

23. But, see the rich menu of suggestions in William R. Van Cleave and W. Scott Thompson, *Strategic Options for the Early Eighties: What Can Be Done?* (New York: National Strategy Information Center, 1979).

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a new realism and seriousness in U.S. defense policy.[24] Before the resumption of SALT negotiations, the U.S. Senate should require that the government think through its strategic planning problems. The government should be asked to explain-

– What is its strategic targeting philosophy? – And why? – And what weapons does that philosophy require for implementation?[25]

– In general terms, how would it expect to dominate a process of competitive controlled escalation? – And why would it anticipate the Soviets behaving in a cooperative manner?

– Why was strategic superiority officially judged to be essential to the United States as late as 1964-65, whereas essential equivalence or rough parity is deemed sufficient in 1979?

– What does it think is achievable through SALT? Why is it that weighty promises and aspirations have been raised in connection with a SALT III, while practically every informed observer of and participant in the SALT process recognizes that the probable difficulties in negotiating a SALT III will make SALT II look like child's play?

SALT II – Devoid of Merit

The enduring appeal of arms control or, more accurately, what is retailed misleadingly as arms control (such as SALT II) is beyond rational strategic explanation. There are no strategic arguments favorable to SALT II. As observed above, the debate narrows down to whether or not SALT II hampers Western ability to repond to the threat that it cannot alleviate. This author advocates one of two approaches to SALT. First, the entire enterprise should be abandoned – on the grounds that, although it was a noble and indeed necessary protracted experiment, Soviet doctrine and foreign policy ambitions robbed

24. The *apogee* of U.S. amateurism in the SALT negotiations was reached in the Spring of 1977: the Soviets rejected President Carter's fairly radical comprehensive proposal, following which the U.S. retreated precipitately to the Vladivostok framework. Neither the Soviets nor anyone else can have respect for such a dismal performance. In minor key, the Carter Administration's incredible attempt to link future decisions on enhanced radiation weapon production to Soviet performance *vis à vis* SS-20 deployment, similarly signalled the lack of a firm grip upon international political reality.

25. See my article "Nuclear Strategy: The Case for a Theory of Victory," *International Security* (forthcoming, Summer 1979).

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it of any chance of worthwhile success.[26] Second, alternatively, while rejecting SALT II *and* the ABM treaty – and thereby restoring maximum flexibility in strategic planning to both sides – a successor diplomatic institution could be created, eventually, which would keep the arms-talks channel of Soviet-American relations alive, but would be given little, if any, publicity and would be granted only a very modest, largely technical charter.

In keeping with a new realism concerning the inappropriateness of most arms control ideas for the world as we know it, the United States government should abolish the Arms Control and Disarmament Agency (ACDA). In practice, ACDA can do nothing to impede the Soviet engine of the arms competition, but it can and does work hard to abort the evolution of American weapon programs. Much if not most of orthodox theory concerning the dynamics of arms competition and strategic stability is either demonstrably false or is highly dubious – yet naively erroneous arms control propositions tend to be the intellectual working capital with which ACDA wages guerrilla warfare on every *U.S.* weapon program that it believes might be *provocative* in Soviet estimation.[27]

To abandon SALT would be close to a cost-free decision. *With* SALT II, the Soviets are soon going to pose a near-total threat to U.S. silo-housed ICBMs, while the safe-escape from runways of the over-age B-52 fleet in the face of a barrage attack will be increasingly problematical in the mid-1980s. The missile modernization provisions of SALT II – limiting each party to one "new type" of ICBM – are essentially meaningless.

26. No matter how clever the pro-SALT II arguments that are advanced, their authors cannot help but be embarrassed by the plain facts of the Soviet military buildup, which have accompanied the years of SALT.

27. A major vehicle for arms control ideology is the strange phenomenon of the arms control impact statement (ACIS). Some members of the KGB probably wish that they could claim credit for having invented this idea. The only fortunate aspect of the many ACISs that are produced every year is that very few people in the Congress seem to take them very seriously. For the latest crop of ACISs, see U.S. Congress, Senate Committee on Foreign Relations and House Committee on Foreign Affairs, *Fiscal Year 1980 Arms Control Impact Statements*,96th Cong., 1st sess. (Washington, D.C.: U.S. Government Printing Office, March 1979).

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The U.S. can neither verify within the five percent increase or decrease range specified,[28] nor have the Soviets provided the kind of details for the base-case "light" ICBM, the SS-19, such that they could be held to account for violating the agreement on modernization. Given the state of U.S. strategic programs and the absence of a U.S. civil defense program worth mentioning, the Soviets, with SALT II, will be free to deploy more warheads than they need for both counterforce and counter-urban/industrial targeting. The threat cannot be worse without SALT II.

Not infrequently, it is claimed that SALT II has value in that it provides a predictability of threat – albeit at high levels. The qualification is more important than is the basic claim. Because of the enormous ICBM throw-weight advantage that was ratified in SALT I and is being perpetuated in SALT II, we may predict that a fraction of the Soviet ICBM force will be able to destroy in excess of 900 of our 1,054 silo-housed ICBMs by 1981, leaving a very large residual ICBM force available to hold our cities hostage and/or to join with the SLBM force in barrage-attacking our B-52 force in flight. It has been claimed by some analysts who should know better[29] that the achievement of negotiated fractionation sub-limits in SALT II was a major accomplishment.[30] Assuming Soviet compliance, it is true that until the end of 1985 the total Soviet ICBM warhead count will be limited by treaty (the SS-18 is limited to bearing 10 RVs, the SS-19 to 6 RVs and the SS-17 to 4 RVs). However, U.S. pride in this negotiating triumph should be tempered by the following considerations. First, the sub-limits agreed upon almost certainly simply register what the Soviets judge to be technically optimal for the early and mid-1980s (given their current and immediately anticipated ICBM accuracies, it would not make any sense to fractionate to, say, twenty or thirty RVs on an SS-18). Second, the Soviets have no strategic incentive to fractionate further through 1985. The case for a major surge in accurate warhead deployment will become urgent *only* if the United States proceeds to deploy the MX ICBM in a multiple protective, structure-basing scheme. (As of

28. In Article IV, para. 9, "Second Common Understanding," *SALT II Agreement*, p. 34.

29. Names withheld in order to protect the guilty.

30. Article IV, para. 10, *SALT II Agreement*, p. 35.

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1979, the *initial* operating capability for such a system is not scheduled before 1986).[31] If the MX ICBM is not aborted as a consequence of SALT diplomacy (or domestic environmental challenge), then the Soviets will have no incentive to perpetuate the fractionation sub-limits beyond SALT II. Indeed, they will have a very large incentive to abandon those sub-limits. Given the fact that some U.S. arms control luminaries already are arguing, in public, that MX is strategically viable only courtesy of SALT-imposed fractionation sub-limits, one can well imagine the kind of price the Soviets will attempt to charge in return for their continuation. In fact, the argument that the fractionation provisions are essential for the survivability of MX happens to be false.[32]

Rejection of SALT

The SALT II debate, stripped of trivia, requires a judgment as to whether the U.S. and its allies are more likely to work hard to restore a tolerable military balance with the U.S.S.R. with or without the treaty. As noted above several times, the terms of the treaty are irrelevant to the scale, timing, and sophistication of the military threat. It is this author's judgment that although the Western allies could modernize and rearm *with* the treaty, outright rejection is more likely to generate the kind of political climate wherein a non-incremental approach to the solution of our problems will be possible. Also, rejection of SALT II, properly explained by those most responsible for its defeat, would be a dramatic act consistent with the scale of the danger that we face. If the United States and NATO genuinely wish to reverse the slide in the military relationship, it is naive to expect them to be able to do this while they are engaged in cooperation-as-before in SALT with the Soviet Union. In other words, the United States and its allies need a symbolic gesture that proclaims, with minimum ambiguity, their determination *not* to conduct business as usual.

31. See "MX Basing Approval Expected," *Aviation Week and Space Technology*, Vol. III, No. 5, July 30, 1979, pp. 12-13.

32. For analysis supportive of this claim see Colin S. Gray, *The MX ICBM: Multiple Protective Structure (MPS) Basing and Arms Control*, HI-2977-P, (Croton-on-Hudson, New York: Hudson Institute, February 1979) pp.58-78.

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The Government versus the Entrepeneur

JAY VAN ANDEL AND RICHARD M. DeVOS

The free market economy is an inflexible system. To succeed as an entrepreneur, one must offer a product or a service that has value to the public. A business cannot be built simply on the owner's desire for profit, but rather on the basis of offering that product or service in an atmosphere of honesty and integrity. When this is the case, each sale the businessman makes to the consumer is a bargain both ways — the seller profits and the buyer profits.

It is ironic, then, that government regulation, which has as its purpose to make the marketplace more equitable for buyers and to some extent for sellers, has altered the buyer-seller relationship and actually eliminated many of the bargains. As businessmen, we must deal each day with the thousands of regulations imposed by government in response to the perception — real or imagined — that the private sector is in violation of the public good. Yet we witness increased costs to consumers and often denial of products that have value to the public.

Historically, we know that regulation emerged as an instrument of government in the late 1800s. The Sherman Anti-Trust Act became law because a majority in Congress was convinced that corporate combinations were thwarting legitimate competition — that a true, free market no longer existed in certain industries. In the first half of the twentieth century, other laws were passed, creating agencies such as the Federal Trade Commission, the Federal Communications Commission, the Securities and Exchange Commission and the Food and Drug Administration, all dedicated to protecting the public interest from actual, perceived, or anticipated abuses by private industry. It was not until the 1960s, however, that lawmakers spawned the numerous "social" regulatory bodies, those concerned with health, safety, and environmental matters.

In fact, when we started our business in 1959, there were about twenty-five federal regulatory agencies. Today, that number has tripled. Our concern, as businessmen, is that others will not have the opportunity we experienced to start a small business and, through our own labor and good fortune, to

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build it into a large corporation such as we now operate.

Small business people – particularly those just starting a business – find themselves stifled by the mass of government regulation. A report of a subcomittee of the Committee on Small Business of the United States House of Representatives determined that over-regulation is discouraging competition because smaller companies cannot afford the cost of keeping track of and complying with all of the rules.[1] That cost is estimated at more than $3600 per year for each small business person in the country. Amway Corporation has spent more than $4 million in the last four years in a battle with the Federal Trade Commission. In April 1975, after cooperating in good faith with an FTC investigation of marketing systems and the direct selling industry, our company was suddenly confronted with a formal agency complaint alleging price-fixing, operating a "pyramid" scheme, restricting activities of distributors by preventing them from selling in retail stores, and a handful of other challenges to our Sales and Marketing Plan. We have refined this plan over the last twenty-five years, and have designed it to provide sound business opportunity to individuals and deliver quality products at a fair price to consumers. It is an integral part of our business.

Because we believed in the integrity of our plan and business, we decided to defend ourselves against the charges. In a decision rendered a few months ago, the FTC commissioners unanimously dismissed most of the allegations and ordered us to cease price-fixing (a practice that was legal under state fair trade laws, but in which we had not engaged for many years) and to avoid certain earnings misrepresentations to prospective distributors.

The few changes ordered by the FTC could have been resolved in negotiations around a conference table as long ago as 1975 – or even earlier. But the FTC staff did not want it that way. They wanted to win in a regulatory showdown. As a result they have cost the taxpayers of the United States untold millions of dollars and Amway $4 million, some of which necessarily had to be passed along to our customers in the form of higher prices for our products. A smaller business could not afford to engage in that kind of prolonged, ex-

1. "Future of Small Business in America," House of Representatives Report Number 95 - 1810 of November 9, 1978.

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pensive litigation. If the agency had challenged an aspect of the business basic to its survival, the business could not have survived.

Struggles of Chrysler and AMC

Small business is not alone in this critical struggle for survival. Chrysler Corporation executives have said repeatedly during the last two years that the regulations of the National Highway Traffic Safety Administration and the Environmental Protection Agency are costing the company millions of dollars and could put Chrysler out of business.

A preliminary draft of a study ordered by the NHTSA reported last year that Chrysler and American Motors may not endure as automakers because of capital expenditures they must make to meet government regulatory standards by 1985.[2] "The smaller firms will either have to be unusually skillful or uncommonly lucky to reach 1985 with market shares and a product breadth similar to those of the past," according to Harbridge House, Inc., of Boston. The draft study predicts increased market concentration in the event of a recession between now and the mid-80s, saying even a modest recession would "destroy the abilities of Chrysler and AMC to maintain their announced investment programs to meet established regulatory requirements." The NHTSA criticized the draft, and a spokesman was quoted as saying that he did not see how it could be of use to the agency.

By the summer of 1979, Chrysler was appealing for a billion dollars in tax relief from the U.S. Congress and had already idled 20,000 autoworkers (partly because gasoline shortages brought about by other regulatory miscues had resulted in buyer resistance to large cars).

Most of the burdensome regulation was produced by congressional overreaction to the consumer activism of the sixties, the era when it was *de rigueur* to vilify the free market system for its failures to society. But according to Paul MacAvoy and Dorothy Tella,[3]

2. Gregory Skwira, "Study Finds U.S. Rules Imperil Chrysler, AMC," *Detroit Free Press*, November 26, 1978.

3. Paul W. MacAvoy and Dorothy M. Tella, "The Impact of Regulation on the Performance of Industry," paper prepared for the Council on Trends and Perspectives of the Chamber of Commerce of the United States. 1979.

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> The "market failures" cited to justify new regulations did not show up then for the first time, and at least some of the indicators of decline in the quality of life that prompted Congress to regulate – the increase in on-the-job injuries and the rise in highway death rates, for example – could be explained almost wholly by factors different from those traditionally dealt with by the regulatory process. . . . In every case where Congress chose to regulate, there were alternatives – court penalties for polluters, tax penalties for employers with poor safety records, government-funded information programs, and the like – and, in general, better arguments could have been made for the alternatives than for agency controls.

Nevertheless, Congress did give the agencies considerable latitude in carrying out the mandate of the "social" regulatory legislation that had been enacted, and seldom exercised the oversight that is a function of the legislative branch. Regulators drafted their own regulations, opting for rigid standards applied to broad categories of industry in countrywide, rather than individual geographic areas. This was done without regard for circumstances that would make compliance unnecessary, economically prohibitive, or impossible.

For example, David Ragone, Dean of Engineering at the University of Michigan, observed, "We now write one set of (emission control standards) for the entire country. Chicago has a carbon monoxide problem. A rule is written demanding a standard of X-grams to suit Chicago. Nobody ever asks, 'But do they need this in Texas?'"[4]

A little known and potentially dangerous example is the systematic dismantling of the mining industry in the United States. Testimony by Charles Hylander, Deputy Director, International Division, U.S. General Accounting Office, before a subcommittee of the House Committee on Interior and Insular Affairs, revealed some startling facts about the impact of government regulation on mining. He reported:

> . . . from 1968 to 1977, imports of ferro-alloys have changed from ores to processed alloys. In 1968, only 11 percent of the chromium imports and 17 percent of manganese imports were processed alloys. In 1977, the

4. Editorial: "There Ought to Be a Limit," *Detroit News*, October 24, 1978

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percentage of ferro-alloy imports that were process minerals increased to 33 percent and 51 percent, respectively.

The United States has more copper reserves than any other country in the world. Yet, at the time of our review, only about 65 percent of our domestic production capacity was being used. And imports of refined copper over the last 5 years have risen from about 8 percent of U.S. consumption to over 19 percent. . .

Aluminium metal imports, which account for only 10 percent of U.S. consumption in 1978, are expected to increase to 20 percent by the year 2000. . .

These trends toward increasing reliance on foreign-processed minerals stem primarily from the fact that investment for expanding or modernizing domestic mineral projects has not kept pace with investment in foreign capacity. This is happening because investment in domestic mineral projects has become less attractive, due in part to the impact that Government actions have had on their current and/or expected profitability. . .

In the United States, restrictions on the use of Federal land are hindering exploration and development of domestic mineral resources. . .[5]

He cited numerous other examples of federal regulatory impact, including shortages affecting national security and health and safety regulations so rigid they threaten to close plants. The GAO official concluded, "The decline of U.S. mining and mineral processing industry has resulted in lost jobs and job opportunities, has adversely affected our balance of trade, and has increased concerns about our vulnerability to mineral supply interruptions. . ."

Such problems are exacerbated by the tendency on the part of many regulators to "go on crusades." Michael Pertshuk, Chairman of the FTC, now carries out many of the regulations he authored while on the staff of the Senate Commerce Committee. FCC Chairman Charles Ferris is another alumnus of Capitol Hill. Joan Claybrook, the feisty head of the NHTSA, earned her spurs as a Nader Raider. They are only the most

5. Statement by Charles D. Hylander, Deputy Director, International Division, United States General Accounting Office, "Competitiveness of the U.S. Mining and mineral Processing Industry," before Subcommittee on Mines and Mining, U.S. House of Representatives Committee on Interior and Insular Affairs, June 12, 1979.

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visible of the thousands of federal workers whose evangelism now extends to the regulatory process.

The fault does not rest with them, however. It rests with the Congress for failing to exercise the oversight responsibility, both at the regulation-writing stage and, subsequently, through periodic observation of the effects of the regulations themselves.

Only now, as business groups and concerned citizens are making themselves heard in ever-increasing numbers, are the legislators speaking seriously of correcting past errors. The legislative veto, a process by which Congress would interpose objections to regulations before they are put into effect, would eliminate some of the misguided approaches to regulation that have occurred.

The Costs of Regulation

The economic burden of excessive regulation is a matter of great concern to those of us in the business community for two reasons. First, the capital we must invest to comply with regulations cannot be used for new plants and equipment. That means obsolete facilities cannot be replaced in a timely manner, and expansion is limited. The result is fewer new jobs at home and a less competitive position in the international market. Second, the cost of all regulation is passed on to the consumer. When that cost is greater for one company than another (say, for Chrysler than for General Motors, for Amway than Procter and Gamble), price competition is distorted. One company receives an unfair advantage because of government involvement.

It has been estimated that for every dollar the government spends to enforce regulation, twenty are spent to comply. Using that criterion, Dr. Murray Weidenbaum of the Center for the Study of American Business in St. Louis estimated that industry would spend about $100 billion in 1979 as the result of government regulation. That is an average of $2000 for each family of four – $2000 less purchasing power.

To better understand how these costs occur, consider the recent history of some regulatory decisions:

– Tris was the chemical ingredient added to children's sleepwear at the insistence of the Consumer Product Safety Administration to make it flame-retardant. Later, CPSC learned that Tris may cause skin cancer and it was ordered removed. Cost of reformulating and disposing of

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existing inventories was borne by the consumer.

– Childproof caps on pill bottles were introduced to protect young people against accidental ingestion of dangerous drugs. *The Journal of the American Medical Association* reports that the twist-press safety caps are so difficult to remove that many elderly people have difficulty taking their medicines.[6] Our own experience has been that since we have been required to place safety closures on those containers of vitamins containing iron, many of our customers open the container once and leave it open. Each childproof closure adds about fifty cents to the price of the vitamins.

– The Environmental Protection Agency has focused on chemical pesticides in recent years, banning some and requiring registration of all. Now the National Agricultural Chemicals Association reports that it takes an average of more than nine years and an investment of $20 million for a single new product to reach the market. Many companies are giving up the development of any new, more effective pesticide products.

According to the late Professor Robert White-Stevens, former Chairman of the Bureau of Conservation and Environmental Science at Rutgers University, infestations of bugs reached near epidemic proportions in 1978. He called it "The Year of the Pests."[7]

A study published in *Chemical Engineering* magazine in September 1978 revealed that "nearly all of the chemical process industries. . . were spending proportionately less these days on basic research than they did 10 years ago." In other words, while industry invests more each year in research and development, most of the money is being directed into defensive R & D – toxicology, anti-pollution, and so on. It can be argued that these are worthwhile innovations that benefit society, but at the same time, many Americans wait five to nine years longer than people in Europe to experience the benefits of new drugs and medicines. Much innovation in this field has shifted to Europe and Japan because of a less confining regulatory

6. Commentary: "Child -Resistant Containers for the Elderly?" *The Journal of the American Medical Association*, Vol. 241 No. 10, March 9, 1979, pp. 1001-1002.

7. Robert H. White-Stevens, *1978 – The Year of the Pest*, (Louisville: National Council for Environmental Balance, 1978).

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climate in those countries.

Innovation in most manufacturing categories is being hampered. Many companies now find that their limited capital is better invested in revisions of existing products (often mandated by government) than in development of new products. The competitive edge goes to foreign manufacturers.

Necessity of Regulation

Are all regulations unnecessary? Of course not! Those of us who live on a residential street insist on a speed limit for the safety of our children and ourselves. Traffic lights at major intersections prevent untold amounts of property damage as well as personal injury and death. In many instances we expect government to step in at times when a few members of the business community – or other segments of society – fail to recognize their responsibilities and pollute streams, foul the air, or endanger the health or safety of others. There is no doubt that much of the impetus for regulation was the result of unfortunate acts by a tiny minority of our society.

However, government, particularly the federal government, has moved from the position of referee to that of the opposing team. Regulation has become so onerous that it wreaks havoc in the lives of all Americans, distorting the system that was instituted by the founders of our nation to guarantee personal and economic freedom. The trend must be reversed; to wait any longer will be to ensure the permanence of a regulated society.

Congress, the regulatory agencies, the public and the business community have a role in the reform process. The Congress must assume veto power over regulations. Perhaps, properly exercised, their existing oversight responsibility would make additional statutory power unnecessary. Congress opted for the more politically attractive functions of creating more and more legislation.

In addition to the veto power, Congress must enact sunset legislation, establishing the date upon which each regulatory body will be terminated. If the existence of a particular agency can be justified, it could be continued by vote of the Congress. Existing agencies, as well as any future ones, must be brought under sunset laws. Those who propose future regulations or agencies must be required to provide economic impact statements, including a cost-benefit analysis. Far more is at

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stake than the specific cost of administering a program. Only after the Congress has been convinced that there is a requirement that merits cost to government, cost to industry, and direct and indirect cost to society, should a regulation be enacted or an agency created.

Those in the federal agencies should take their cue from the Civil Aeronautics Board and devote some of their energies to reducing or eliminating regulatory functions. When regulations are established, goals rather than rigid standards must be developed to achieve the stated objectives. Arbitrary standards, imposed with no consideration except that a mandate must be served, have been counterproductive in the majority of cases.

The regulators must work with industry groups to develop programs and timetables that will accomplish the desired goals without disruption of the economy, loss of jobs, or surrender of an important segment of a market to a foreign competitor. Inviting the expertise of industry to participate in achieving goals should be looked upon as a normal, not an exceptional, procedure.

The public must exercise patience. People must avoid leaping to the conclusion that all businesses are evil because of disappointment at the performance of one, or even a few. Free enterprise produced the greatest standard of living ever enjoyed by mankind. The innovation, determination, and courage of men and women in the private sector have produced the jobs, the food, the marvels which make each of our lives more productive, profitable, and pleasurable. When a product or service is not of the quality it is expected to be, the consumer has every right to complain — first to the seller, then to the business community and, if necessary, the authorities. The public must, however, be encouraged to make its complaints specific and to avoid the stampede of generalities cloaked in the guise of "consumerism," which was largely responsible for the regulatory hailstorm of the sixties.

The business community has the greatest responsibility. Businessmen and women must regard their enterprises as important elements of their community and their nation. They must remain cognizant of the principal tenet of successful business: to provide the consumer with the best possible product at a fair price. The business community must lend its full

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support to the passage of the sunset legislation and the congressional veto and must work with the regulators to develop reasonable goals and the means to achieve them.

Above all, however, the men and women of the business community must not yield to the forces of big government. Business is not and never was intended to be a partner of government. Corporate executives who blindly pledge cooperation to government programs, even when the programs are designed to destroy the very system in which their businesses should thrive, are either incredibly naive or unwilling to engage in open competition in the free market. Cooperation with government to eliminate existing barriers and prevent the imposition of future ones is not only proper, it is essential. But cooperation does not mean surrender. The first duty of every man and woman in this country who considers himself or herself a bona-fide business person is to preserve the lifeblood of this nation – the free enterprise system – and to do it by *example*. When that happens, the need for regulation will be dramatically reduced.

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The Politics of Cancer

ELIZABETH WHELAN

It is the second leading cause of death in this country, claiming the lives of some 400,000 Americans a year: one every 90 seconds, 1,100 victims a day. One in four of us will develop it in our lifetime. An estimated 60 to 80 percent of it is caused by factors in our environment. The media inform us that our country has unusually high rates, with its incidence and mortality rates soaring, and imply that this trend results from advancing technology (industrialization) which leaves us victims of adulterated, overprocessed foods, dangerous drugs, polluted air and water, and hazardous workplaces. And now, through an elaborate network of regulations, restrictions and prohibitions, our government is supposedly going to protect us from it.

Cancer. Abnormal, undisciplined, seemingly unrestricted growth of body cells, with the resultant masses compressing, invading, and destroying contiguous tissues. Very often a painful, prolonged, undignified way to die, physically devastating for its victims, and frequently emotionally devastating for loved ones who must stand back and watch.

It should be good news to learn that our government is taking action to spare us and our children from this fate. Of course, all this effort is very expensive for U.S. consumers. But, if removing cancer-causing agents from our food and drug supply, the workplace, the water we drink and the air we breathe will markedly reduce cancer's toll, the investment of time and energy and the accompanying return to a less technological society may be worth the costs.

On the other hand, if the underlying premises that have spurred this growth in government regulation of environmental chemicals are in conflict with the scientific facts, then our government's escalating war on cancer will be an effort in futility, one with far-reaching and, I believe, deleterious effects on our standard of living. In this regard, the cornerstones of the popular wisdom about cancer and the environment are worth reexamining.

Is there a cancer epidemic?

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Apparently many people believe there is. One network television program[1] on cancer opened with the statement: "The news tonight is that the United States is number one in cancer. The National Cancer Institute estimates that if you're living in America, your chance of getting cancer is higher than anywhere else in the world." And during the Carter-Ford Presidential debates in the fall of 1976, Mr. Carter made reference to the United States as "having the highest cancer death rate in the world."

Actually, the United States ranks 21st in a list of 44 countries in cancer mortality, according to the international statistical comparisons of the World Health Organization. Scotland has the dubious honor of being "number one," followed closely by Czechoslovakia, Luxembourg, Uruguay, Austria, France, and the Netherlands. So what about this cancer "epidemic" we hear a great deal about?

Any discussion of cancer trends must distinguish between cancer incidence — the number of new cases of cancer diagnosed in a given time period for a specific population — and cancer mortality — the number of deaths from a form of malignancy in a given year for a specific population. It should come as no surprise that because of the growth of the U.S. population in the past few decades the gross number of cancer deaths has also increased. What is surprising is that despite the popular wisdom about our "epidemic," the number of new cases of cancer, taking into account all body sites for both sexes and adjustments for changes in the age distribution of the population, has *decreased* since the mid 1940s.

The incidence of certain types of cancer, specifically stomach cancers in men and women and cervical cancers, has decreased dramatically. The rates of certain other types of cancer, such as breast and intestinal cancers in white women, have stayed about the same. In men, there have been increases in the number of new cases of cancer of the prostate and the colon and increases in cancers of the esophagus and breast in nonwhite men and women. But *the only body site of dramatic increase for all Americans in the past 25 years is the lung. Were it not for the sudden and continuing up-swing in lung cancer deaths starting in 1930, the overwhelming proportion of which are the result of*

1. Dan Rather, "The American Way of Cancer," CBS.

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cigarette smoking, the age-adjusted American cancer death rate would be declining slightly.

Causes of Cancer

In the past five years frequent references have been made to the statement that "80 to 90 percent of all cancers are environmentally induced." This figure was originally presented by the International Agency for Research in Cancer, a World Health Organization affiliate based in Lyon, France, and has, unfortunately, been subject to considerable misinterpretation. This estimate was derived by comparing the high and low cancer death rates in many countries around the world. The conclusion was that since human cancer rates differed so widely, some aspects of the environment were the bases of cancer causation. The scientists presenting the figure did not mean to suggest that we have the potential now to prevent 80 to 90 percent of human cancers, nor did they mean to suggest that environmental factors such as polluted air, water, food, and industrial chemicals played a major role. The cancer-causing factors they identified were primarily cultural in origin.

While epidemiologists differ somewhat in their estimates of the proportion of cancer deaths attributable to various causes, the majority of analyses of human disease patterns suggest that, except for superficial skin cancer, some 30 to 35 percent of cancer deaths are directly attributable to cigarette smoking (in addition to affecting the lung, tobacco exerts a carcinogenic effect on other sites, including the bladder and oral cavity); on a more speculative level another 30 to 35 percent of cancer deaths may be related to dietary habits. Perhaps, it has been suggested, diets high in calories and fat can increase one's risk of certain forms of cancer. An additional 1 to 2 percent of total cancers may be linked to excessive alcohol consumption (generally in conjunction with tobacco use) and exposure to ionizing radiation and cancer-inducing viruses.

Contrary to what emerged from a mysterious, unpublished document from the National Cancer Institute, which was widely quoted by Secretary of Health, Education and Welfare, Joseph Califano, the International Agency for Research on Cancer estimates that occupational exposure to chemicals is the underlying cause of some 1 to 5 percent of the cancer deaths that occurred in 1978. (Mr. Califano attributes 20 to 40 percent

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of cancers to this cause.) These deaths, however, are the result of exposure in the workplace 20 or more years ago when safety measures in chemical plants were not standard procedure as they are today, so that the 1 to 5 percent figure may overstate the problem existing today. Of all cancer risks that we as a society face at this time, the occupational risks may be no higher than 1 percent of the total and may possibly be closer to zero.

As far as we can ascertain from human epidemiological studies, food additives and pesticide residues are not responsible for any cases of cancer. Indeed, since the use of certain food additives has increased, the stomach cancer death rate has declined. While some carcinogens have been identified in the air and water of some U.S. communities, no studies have convincingly indicated either general water or air pollution as a cause of human cancer. Although there is no doubt that lung cancer death rates are higher in cities than they are in rural areas, the Royal College of Physicians concluded in 1970, after thoroughly examining the possible role of air pollution, "The study of time trends on death rate due to lung cancer in urban areas demonstrated the overwhelming effect of cigarette smoking on the distribution of disease." Other scientists, including two epidemiologists from the American Health Foundation agree: "On the basis of data accumulated in the U.S. we cannot conclude that the incidence of lung cancer is much affected by community air pollution in this country."

This should not excuse the indiscriminate or irresponsible pollution of our natural resources. There are many good and valid reasons, both health-related and aesthetic, for taking steps to keep our air and water as pure as possible. But the risk of cancer is not one of them.

The current federal preoccupation with chemicals and cancer involves many agencies. In addition to those agencies regulating materials such as cigarettes and alcohol, we are "protected" by the Environmental Protection Agency (EPA), the Occupational Safety and Health Administration (OSHA), the Food and Drug Administration (FDA), the Consumer Product Safety Commission (CPSC), and the United States Department of Agriculture (USDA).

The Delaney Clause

The vanguard of legislation in the chemical-cancer arena is

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the Delaney Clause, which now largely dictates the regulatory activities of the FDA with respect to food additives. The Clause, enacted in 1958 and authored by Representative James J. Delaney (D-NY), states: "No additive shall be deemed to be safe if it is found to induce cancer when ingested by man or animal, or if it is found, after tests which are appropriate for the evaluation of the safety of food additives, to induce cancer in man or animals." In brief, the Delaney Clause requires the FDA to ban any food additive that is shown in any animal species, at any dose level, to cause an increased incidence of any type of tumor. Although many FDA representatives now claim that "It would have happened anyway," it is clear that the banning of cyclamates, Red Dye #2 and the recently proposed ban of saccharin are the results of the absolutism of the Delaney Clause.

The Clause has proved to be a regulator's dream. If Event A happens (cancer in an animal study) then Event B will occur (banning). This entails no weighing of cost and benefit, no scientific inquiries about what the animal study meant and how it should be interpreted – just regulatory action. Just such an inflexible and unscientific regulation led to the banning of a number of useful chemicals and most certainly has served as a disincentive for food technologists who might otherwise be seeking new types of food additives, including a variety of synthetic sweeteners. But for a while the concerned consumer, as well as those in American industry, could at least console himself that this simplistic approach was limited to the regulation of food additives.

In the last 15 years, however, a growing concern about many other chemicals and other possible environmental hazards has triggered a series of events which may ultimately lead to a Delaney-like regulatory approach to all the synthetic – and perhaps some natural – chemicals in our lives.

The National Cancer Institute, Environmental Protection Agency and Occupational Safety and Health Administration began, in the 1970s, to examine possible environmental threats and wrestled with alternatives for identifying and regulating carcinogens. Industry established the Chemical Industry Institute of Toxicology with the announced objective of creating the best toxicology testing operation in the world. During 1975 the NCI attempted to develop general criteria for

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assessing whether specific environmental agents constituted a carcinogenic hazard in humans. But in issuing a report in June 1976, the NCI concluded that no simple guidelines could be set, since evaluating chemicals is a complex process characterized by many imponderables and often requires expert scientific judgment in each case.

But the EPA took a different course. In an effort to develop a policy for evaluating pesticides, an effort that overlooked the NCI panel's conclusion that broad guidelines in judging carcinogens were not practical, the EPA issued what it termed "Nine Principles of Carcinogenicity." In summary, these principles stated that any chemical that induces either *benign or malignant* tumors in animals must be considered to be a carcinogen capable of affecting man and that such a chemical must be assumed to pose a hazard even at extremely low levels of exposure. EPA applied these principles (which, because they are not fundamental truths, laws or doctrines, might better be called "propositions") to the pesticides, aldrin and dieldrin, which at high levels cause liver tumors in mice. The agency termed these substances "imminent hazards" and banned them, despite the fact that these agricultural chemicals did not cause tumors in other animals and had no carcinogenic effect on workers who for many years had been exposed to the chemicals at levels many hundreds of times that of the general population.

At the same time, OSHA was considering how to carry out its legal mandate, the protection of workers in the workplace, particularly in terms of possible exposure to occupational carcinogens. During its first years OSHA (which was created in 1970) was primarily concerned with such mishaps as falling off ladders and crushing fingers in machinery. The carcinogen matter was a relatively new one for them. Indeed, the agency was under increasing criticism, some internal and blatantly self-serving, for having regulated only a handful of chemicals as carcinogens. In an effort to increase its ability to move more quickly against possible cancer-causing chemicals in the workplace, OSHA, in late 1977, issued a proposal abandoning its previous substance-by-substance approach to the regulation of carcinogens and establishing a standard fill-in-the-blank type schema. Specifically, OSHA now proposes that a chemical be identified as a "confirmed carcinogen" if it increases the incidence of tumors or decreases latency periods between

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exposure and onset of tumors – malignant or benign – in either humans or two mammalian species, or one animal species if the test is replicated or considered by OSHA scientists to be convincing.

While at first glance, the OSHA regulation may appear to have more flexibility than the Delaney Clause, it, too, places the label "carcinogen" on any chemical that increases the incidence of any type of tumor, in any animal, in any dose, possibly by any route of administration (including skin application or injection). In the sense that it assumes that *any* type of tumor, malignant or benign, is cancer, it is even more inflexible than the Delaney Clause.

While these OSHA regulations would apply only to the workplace, they could, in effect, set a national standard for the definition and regulation of carcinogens. If they are approved as scientifically valid, they could very well become part of the regulatory apparatus of all health-related agencies, thus being applied to chemicals in the air, water, cosmetics, drugs, and food.

A National Cancer Policy

As the various regulatory agencies were pondering their own individual cancer policies, four of these regulatory agencies charged with protecting workers and consumers from carcinogenic substances began to develop what they hoped would be a national cancer policy. The EPA, CPSC, FDA and OSHA developed their proposal under the Interagency Regulatory Liaison Group (IRLG), which was set up by President Carter to coordinate regulatory activity. The report of this interagency group resembles OSHA's proposal in that it relies heavily on animal tests and accepts as a major premise that cancer studies involving mice, rats or other mammals are valid methods for judging a compound's potential effects upon people and that there is currently no reliable way to predict a threshold below which human population exposure to a carcinogen has no effect on cancer risk. But the IRLG document did show some insights that the policies of the individual agencies did not. Specifically, the IRLG paper stresses risk assessment, estimating the degree of risk involved in exposure to a given chemical rather than labeling all potentially harmful substances as "carcinogens." This is significantly different from grouping all potentially carci-

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nogenic substances as carcinogens and regulating them all in the same manner. There is approximately a million-fold difference between the cancer-causing activity of aflatoxin (a proven animal carcinogen in a number of species) on one hand and the disputed carcinogenic potential of saccharin on the other.

It is very difficult to criticize any program aimed at cancer prevention. We all agree that reasonable and effective methods should be employed to reduce the public's risk of suffering from this dreaded disease. But the Delaney Clause, the EPA "Principles," the OSHA regulations and even the new inter-agency proposal seem to be so intent on preventing cancer *at any cost* that they have overlooked some obvious and sometimes disturbing scientific realities.

First, all three regulatory approaches make the assumption that most cancers are caused by potentially avoidable exposures to chemical carcinogens. The Delaney Clause assumes these chemicals are likely to be food additives. The EPA Principles assume that they take the form of carcinogenic pesticides. The OSHA regulations assume that the offending chemicals are in the workplace, injuring workers and then possibly escaping to pollute our air and water supply.

But as has already been pointed out, the pieces of the cancer puzzle which have been assembled to date do not support these assumptions.

Indeed, an examination of the causes of human malignancies suggests that the combined FDA, EPA and OSHA efforts to remove cancer-causing agents from our food, water, air and workplace would only have the potential for reducing our cancer mortality by between 0 and 5 percent.

Second, all three regulations are, to varying degrees, based on a double standard, one that demands action against a man-made chemical, while no action is required to eliminate similar hazards caused by naturally-occurring substances. The Delaney Clause is specific in this regard; its legislative impact is limited to chemicals *added* to food. The EPA principles and OSHA guidelines are ambiguous but appear to be only concerned with "artificial" agricultural and occupational chemicals. As a result, a useful artificial sweetener like saccharin may be banned on the grounds that it induces tumors in Canadian rats while there is strong scientific evidence that egg yolk, egg white, selenium, caffeine, lactose, maltose and vitamin A — which will not be banned — are carcinogenic in at least one species of mammalian

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test animals.

Third, all three individual regulations are inflexible, requiring regulatory action on the basis of animal experimentations, assuming that laboratory animals are excellent predictors of the cancer-causing potential of a chemical in man. Indeed, proponents of all these regulations contend that all chemicals that cause cancer in man cause cancer in animals; the inference being, then, that mice are little men.

While it is true that most – but not all – known human carcinogens are cancer-causing agents in laboratory animals, *the opposite is not true* – not all animal carcinogens are known human carcinogens. Drugs such as sodium penicillin and phenobarbitol, known animal carcinogens, have no known cancer-causing effect on humans. If the philosophy of the Delaney-OSHA-EPA regulations were applied to the oral contraceptive – which contains synthetic estrogen – the Pill would never have been approved, because all estrogens, natural or otherwise, have carcinogenic properties.

The fact that the OSHA regulations, unlike the Delaney Clause, assume that the appearance of benign as well as malignant animal tumors indicates a carcinogenic potential for man is even less scientifically tolerable. While most authorities believe that the appearance of benign tumors should be a warning, there is no reason to immediately classify them as "cancerous."

There is no doubt that animal experimentation plays a critical role in evaluating chemical safety. Some of the most important medical discoveries had their beginnings in animal experimentation. We are not suggesting that we should rely solely on evidence of human experience in judging a substance's safety. Epidemiology does have its limitations, primarily that it takes five, ten, twenty or more years for some human carcinogens to reveal their deadly characteristics. But we simply cannot be guided by laws that assume that the laboratory animal is an infallible predictor for man. Animal experiments need to be interpreted and put in proper perspective.

Possible individual species or strain susceptibility must be taken into account – as well as other unique circumstances that may be responsible for whatever positive results appear. It is known, for instance, that animals differ from humans in their reactions to various chemicals. Morphine has a directly opposite

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effect on the cat than it does on human beings. It is a very useful analgesic drug for man, but when it is given to a cat, the animal becomes restless and belligerent.

Ensuring a Sound Basis for Prohibition

If a food additive or other industrial or environmental chemical, when ingested by a group of rats, leads to an increased incidence of malignant tumors of the bladder, liver, or other organ, the results are worth noting. But that observation is not in itself a sound basis for condemnation or prohibition. Instead, such an observation should stimulate similar tests on other animals. When the results of a series of different tests on different animals are in, the scientific decision-making process should begin. Were the results consistent? Did the chemical have a carcinogenic effect in more than one species? Certainly, one study detecting cancer in animals should not negate a dozen others reporting no cancer. What about a dose-response relationship? Did the incidence of tumors increase as the dosage of the chemical was increased? Does the chemical being evaluated have any characteristic that might lead one to suspect it is carcinogenic? Are there specific factors that promote or inhibit the carcinogenic effect of this substance in a laboratory animal? Is there any human epidemiological evidence available on the substance which would support or fail to support the laboratory findings? Years of safe use by humans should generally carry more weight than one limited animal evaluation. Does the chemical perform an important function? Are there alternatives? What would be the cost of banning or severely regulating it? The answers to some, if not all, of these questions may provide a basis for sound, scientific decision-making. There can be no set criteria for judging carcinogenic activity, but there can be a consistent and scientific method of analysis. The data provided by laboratory experimentation should provide but one input into a complex evaluation procedure.

Fourth, the OSHA regulations, like the Delaney Clause and EPA Principles before them, are unrealistic and, indeed, anachronistic in that they assume that if a large amount of a substance induces cancer in animals or humans, even trace amounts — truly minute quantities — could be carcinogenic, too, and thus should be eliminated from the environment. With our sophisticated means of detecting minute levels of a

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substance, the zero tolerance principle is particularly inappropriate. The process of producing cancer in the most sensitive species at any dose level by whatever route and then assuming that trace amounts of that chemical might cause cancer in man, perhaps despite human evidence to the contrary, is nothing short of ridiculous.

By assuming that any chemical at any dose that induces any type of tumor in any animal is a potential cancer threat for humans and by setting standards which will ban that chemical or require expensive, superfluous restrictions, our government carcinogen policy will, in effect, be saying, "If there is even the slightest possibility, no matter how hypothetical and no matter what the cost of regulating procedures may be, take action."

Stopping the technology at even the hint of a problem is going to be very costly indeed.

As is always the case, the major costs of regulation are hidden ones, manifesting themselves in higher taxes, higher prices in the marketplace, reduced availability of supplies and services, and, in this case, increased dependence on other countries to supply us with goods that we can no longer make. Very often these costs simply show up in nickel and dime price hikes on common products and become indistinguishable in the overall spiral of inflation. What is clear, however, it that the regulatory steps now being proposed by OSHA are going to be even more expensive and are going to affect every one of us.

If applied literally to all chemicals in our environment, the OSHA standards might demand rigid protective gear for those who make their living frying eggs (as mentioned earlier, both whites and yolks are animal carcinogens) and could lead to the disappearance of major industries and materials we now take for granted, for example, the dry cleaning industry (with its dependence on perchloroethylene), cosmetics (one hair-coloring ingredient, 2,4-DAA, has been found to cause tumors in rodents, which would make it an unacceptable material for the workplace), foods (continued testing of additives and pesticides will inevitably lead to more and more isolated studies noting animal cancers), everyday products (perhaps among them insulation materials, because they have traces of asbestos, plastic bottles because of a speck of vinyl chloride monomer, and gasoline because it has more than a trace of benzene).

But it is very likely that the cancer standards *won't* be

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applied literally because that would only make the government look more foolish than it already does and lead to more jokes, like the one about a substance called W-A-T-E-R being banned because an FDA researcher put his head in it for 20 minutes and died. It is unlikely that the regulations will be applied to the point that we shall destroy ourselves in the process. Instead of arousing the ire of Mr. and Ms. America, or risking losing the support of labor union leaders who begin to question whether they want to pay for this higher degree of safety by having fewer jobs available, the regulatory efforts will likely be focused, as they have been in the past, on areas where the impact will be more subtle, more indirect, although certainly not less costly.

The Cancer War: An Expensive Failure

It seems clear that the federal attempt to protect us from cancer, as reflected in the Delaney-EPA-OSHA-type regulations, is going to be a very expensive failure. These regulations focus a great deal of time, attention, and resources on environmental factors that contribute little to the nation's cancer burden. Obviously, we need to test our food additives to make sure that we are keeping hazardous materials out of our food supply. Highly toxic and/or carcinogenic materials should be also carefully supervised in the workplace. We realize that industry does *not* always voluntarily monitor itself. Some of the smaller chemical industries have been callously irresponsible about human exposure to known cancer-causing agents.

But an enormous, highly restrictive, inflexible, and expensive government regulatory system is not necessary. Because we have experienced tragedy in the past as a result of conditions that were extreme in their promiscuous exposure to carcinogens, we do not now need to go to the other extreme, purchasing a far higher degree of safety than is necessary and instituting measures that will raise our taxes and the prices of goods and services without saving even one additional life. There are means by which we can accomplish the same goal: reducing the very small number of known chemical cancer hazards that may still exist in our environment by means of a less generalized, more focused approach, one that acknowledges degrees of risk and seeks on a case-by-case basis the counsel of the country's leading scientists, lawmakers, industry leaders, and consumer representatives.

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Instead of seeking a risk-free environment, we should be moving toward the identification of acceptable levels of risk. In doing so, we would *not* be saying, "If you want this product, X number of workers will develop cancer" (which, indeed, is exactly the type of trade-off we willingly make using automobiles, airplanes and swimming pools). It is possible for us to set levels of chemical exposure which according to all scientific evidence do not significantly raise anyone's disease potentiality.

While concerns and government regulatory efforts are now focused on the possible link between technological development, environmental chemicals, and cancer, it is clear that the United States does not have a unique cancer pattern and that, with the exception of lung cancer, there is no cancer epidemic. Air and water pollution, modern food technology, and "industry" are not at the root of our cancer problem. The parts of the cancer causation puzzle now assembled point directly to harmful aspects of our individual habits, particularly cigarette smoking and dietary excesses.

Yet, popular wisdom prevails and new laws, regulations, and bannings are being proposed. And popular wisdom will continue to prevail unless there is an increased public awareness about the disastrous impact regulatory decisions based on misinformation can have.

In recent years, the few scientists who have stepped forward to report the facts about chemicals, cancer, the environment, and health have been met with skepticism and antagonism. Critics often label them apologists for the food or chemical industries, paid for issuing these unorthodox views. As a result, an unrealistic dichotomy has resulted between the self-appointed "consumer" groups who condemn the cancer-causing impact of industry and its chemicals and the much-maligned group collectively known as "industry," which understandably is speaking (or not speaking) in its own defense.

In reality, however, neither of these groups represents the basic interests of the American consumer on questions relating to cancer and the environment.

Traditional consumerists, who have successfully called for bans on DDT, cyclamates, TRIS, Red Dye #2, and other chemicals and who are now turning their guns to saccharin, nitrite, hairdyes, and hamburgers, appear to be demanding safety at any price, no matter what a ban on a chemical might

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do to availability and price tags and no matter how small or hypothetical the benefits of such a ban might be. "Industry," on the other hand, is comprised of business people who are quite legitimately seeking profits. The costs of regulations are simply passed on to the consumer, and industry always can come up with new products to sell. To go to an improbable extreme, if the chemical industry were put out of business, firms could always regroup to sell organic food, water purifiers, or air masks for city dwellers. In the long run, it is the *consumer* who has the most to lose in the chemicalphobia debate.

If modern-day chemicals cause cancer (and by chemicals we mean our pharmaceuticals, processed foods, and the other products of technology that make our life easier) then that would be another question. But in most cases no such cause-and-effect relationship exists, and we may soon find ourselves without some very basic, useful items, while we spend more of each dollar in taxes to pay the regulators – all this without preventing even one case of human cancer. This is an enormous price tag for nothing.

Cancer is a major public health problem in the United States, the second leading cause of death. It is a problem that demands research attention. But our "war" on cancer will be lost before it begins if we continue to misidentify the enemy.

We would be wise to look before we take a large leap backwards, assessing what costs are involved in such a move. For example, in addition to dealing with the economic burden of government regulation, by accepting a sweeping, uniform carcinogen policy, we will be paying yet another indirect and very significant cost. By investing such a large portion of our tax dollars in programs that appear to have no payoff in terms of cancer prevention, we will be detracting attention from the real war on cancer, one that might provide us, for example, with the formula for a safer cigarette, a better understanding of how diet and disease may be linked, and more complete information on the viral causes of some cancers. In this sense, government regulation may prove to be cancer's ally, leading us to wonder if our regulatory bodies themselves might be well-advised to post a label, "Warning: This agency may be harmful to your economic and physical health."

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Rethinking the Multilateral Development Banks

WILSON E. SCHMIDT

In recent years the multilateral development banks (MDBs) or international financial institutions (IFIs) have come under increasing scrutiny. The World Banks Group, the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank are all development lending institutions owned by their member governments. The United States government participates in all of them. We provide funds. (Currently, the Administration is asking for $3.6 billion in budget authority for them.) In each we have an Executive Director and/or an Alternate, appointed by the President or the Secretary of the Treasury, who serves on the board as a full-time, continuous representative.

The MDBs are a prime element in the transfer of funds to the less-developed world. In the last two years for which data are available these institutions provided more than a quarter of all the official flow of development resources, both loans and grants, to the less-developed world. While the United States is the single largest national source of government grants and loans for development, the MDBs disbursed twenty percent more funds than the United States government. Given their enormous role and the fact that the United States government contributes funds to them, it is little wonder that they have come under increasingly detailed examination in the Congress.

The purpose of this paper is to review some of the issues raised in the Congress and to set forth some fundamental points not addressed.

In hearings before the Subcommittee on Foreign Operations and Related Programs of the House Committee on Appropriations, the Chairman, Mr. Clarence Long, made a number of suggestions to Mr. C. Fred Bergsten, the Assistant Secretary of the Treasury for International Affairs, and to the American Executive Directors with respect to the management of the

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MDBs. They are as follows:

First, the overall growth rates of the various Banks ought to be curtailed until project delays are improved upon. Large undisbursed funds should be reduced until you are sure that the IFIs are not overstraining the absorptive capacities of the less developed countries. . .

Second, the Executive Directors need to be made aware of pertinent material available within the Banks in order to become more effectively involved in the management of the Bank.

Thirdly, greater coordination should take place among the IFIs, that is between them as well as between the IFIs and the bilaterals.

Fourth, a more critical view of loan proposals are needed to be made by the Executive Directors who, in turn, should be made a part of the loan selection procedure at an early stage and not after the fact, and

Fifth, the U.S. Government review system of the IFI projects needs improvements and possible expansion.

Sixth, there is a need for a central agency detached from operating responsibility to investigate suspected irregularities analogous to what we call our Inspector General. There shall be a project audit system which can detect these irregularities. . .

Seventh, greater participation by the Executive Directors is needed in the formulation and administration of the operating budgets.

Eighth, additional effort should be made to direct Banks' assistance to the poor; to develop accurate statistical data to evaluate changes in the plight of the poor. Monitoring of these projects needs to be broader, more frequent, more imaginative and more penetrating. Banks' employees need better training and intensive efforts to promote projects benefiting the poor.

Ninth, more timely project evaluations should be made so that lessons learned could be available on a more timely basis.

Next, we have got to have re-evaluation of the salary and benefit schedules of the employees of the Banks to bring them more in line with each other and with, of course, the United States rise in salaries here for our own

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people.[1]

These suggestions were based on almost one thousand pages of testimony and a report of the Surveys and Investigations Staff of the Committee, which had considerable access to the Treasury files and the banks' personnel.[2] It is more amusing than relevant that these suggestions appear on two pages of the subcommittee hearings which are numbered pages 754-763. None of us is perfect.

As for the first suggestion, namely the concern about project delays and undisbursed funds, it is perfectly obvious that nothing goes as expected in the real world. It is hardly surprising that commitments exceed disbursements, since projects are implemented over at least a four- to seven-year period. The real problem with this suggestion is that the ratio of commitments to disbursements has little to do with absorptive capacity. The crucial test of a country's ability to absorb funds is the rate of return on the projects supported. Disbursements could equal commitments, but the projects could be useless; the rate of return could be zero, in which case the funds are wasted. It would have been more useful to focus on the returns on completed projects. Piecing some assertions together, it appears that the average expected rate of return on projects is eighteen percent[3] and, of fifty-seven projects completed in 1977 by the World Bank, thirty-six actually achieved rates of return equal to or greater than the original estimate.[4] While insufficient to determine whether the absorptive capacity of the less-developed countries has been overstrained, such data hardly provided the basis for a slowdown in commitments. Otto Passman, the former congressman from Louisiana, complained of the pipeline in the U.S. bilateral aid program; it is unfortunate that the level of analysis has not improved since his time.

1. "Foreign Assistance and Related Appropriations for 1980, Part 6, International Finance Institutions," Hearings, Subcomiittee on Foreign Operations and Related Programs, Committee on Appropriations, House of Representatives, Ninety-sixth Congress, First Session, pp. 754-763. Hereafter cited as Part 6.

2. "Foreign Assistance and Related Appropriations for 1980, Part 2, International Financial Institutions," Hearings, Subcommittee on Foreign Operations and Related Programs, Committee on Appropriations, House of Representatives, Ninety-sixth Congress, First Session. Hereafter cited as Part 2.

3. Part 2, p. 72.

4. Part 6, p. 914.

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The second, fourth, and seventh suggestions reflect concern that the Executive Directors do not have adequate control over the banks and that the staff really runs them. As the investigative report says, "Though the IFI charters provide that the Executive Directors are responsible for the general operations of the IFIs, they are more led by management than directing management. . . "[5]

This point was underscored in a colloquy between the ranking Republican, Mr. Young, and the Executive Director of the World Bank, Mr. Edward Fried:

Mr Young: How do you get along with Mr. McNamara? (the President of the World Bank)

Mr. Fried: I have access to Mr. McNamara, a very professional man.

Mr. Young: Well, I am hoping you have access to him since he works for you.[6]

The investigative report supported its assertion by noting that "No loan presented for approval has ever been formally disapproved by the Executive Directors of any of the IFIs. Except at the Inter-American Development Bank, loans have been formally negotiated with the borrowing entity before presentment for Board approval."[7] Mr. Fried responded to the point by saying that

> The function of the discussion of the board during the approval process itself is indeed to influence future policies by expressing concern over one or another aspect of the loan while approving it; the board does influence, and to a very marked degree, what happens to future projects, to the design, to the kinds of things that the bank will be prepared to finance in the future. It is a different system, but it has its own effectiveness.[8]

Access to Bank Documents

In the hearings, the issue of Executive Director control turned chiefly on the access the Executive Directors had to bank documents. The investigative report claimed that "As a general policy, the Executive Directors see only key documents related to the discharge of their responsibilities. Many documents developed by the management staff are not dis-

5. Part 2, p. 32.
6. Part 6, p. 726.
7. Part 2, p. 12.
8. Part 6, p. 483.

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tributed or available to the Executive Directors."[9] Mr. Fried responded in the hearings that ". . . I can get any document. But by common agreement there are certain kinds of documents that are not distributed to the board, but not very many. One example would be various procurement evaluation material." He went on to say that

> In a sense these institutions are very unusual institutions. They have Executive Directors who represent countries which have interests as borrowing and lending countries, supplying countries. In the case of this there is a kind of conflict of interest situation. If you gave this material to one director representing one supplying country it would pit him against a director representing another supplying country. These documents could be obtained but by common agreement they are not.[10]

The banks have a worldwide competitive bidding system (save for a fifteen percent preference given to suppliers in the borrowing country by two of the banks) which ensures the most efficient use of the banks' funds. Because national governments own them, it is easy to see how Executive Directors might vote against particular projects in hopes of reshaping them to utilize more of their country's exports.

Other efforts to bend the banks to particular national wills have failed. For example, in 1977 the Congress required the U.S. Executive Director to oppose loans establishing or expanding the production for export of palm oil, sugar, or citrus crops if such loans would cause injury to American producers. In FY 1978 the U.S. Executive Director in the World Bank voted against two loans. As the investigative report notes,

> Neither, of course, resulted in disapproval of the loan proposals. Review of minutes of discussions surrounding the two negative votes shows not only a lack of sympathy for the U.S. position but a counter-productive reaction on the part of other Executive Directors to U.S. efforts to inject political and/or protectionist attitudes into the loan discussions.[11]

On grounds of violations of human rights, the U.S. Executive Directors have opposed a number of loans and abstained on

9. Part 2, p. 100.
10. Part 6, p. 472.
11. Part 2, p. 18.

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others. While apparently there has been some sympathy for the U.S. position, the investigative report states, "Such support has not been sufficiently widespread among the members to result in the disapproval of any loan nor is there evidence of any groundswell of opinion moving toward such a result."[12] The investigative report puts the problem bluntly: "Involved in the implementation of the United States human rights policy in the IFIs is the danger of politicization of the IFIs." It notes that

> . . . in prior years, representatives of Arab member countries on the World Bank board have attempted to block loans to Israel which the U.S. Executive Director quickly helped to defeat as constituting an effort to inject political considerations into IFI lending rather than adhering to economic grounds as required by the charter.[13]

Obviously this issue involves the very life of these institutions. As the investigative report states, "The vast majority of borrowing countries assisted by the IFIs are not democracies and, to varying degrees, have been accused of human rights violations."[14] Vigorous pursuit of human rights would stop much lending. The Congress passed a law which required the American Executive Directors to propose amendment of the articles of agreement of the banks to establish human rights standards. As Mr. Bergsten testified, "We got a unanimous reaction that such an amendment if proposed would not be adopted . . . "[15]

The depth of this issue was brought out clearly by the comments of Mr. Young, the ranking Republican:

> The thing which really bothers me about Vietnam and I have made this argument so many times that it sounds repetitious to me, but our relationship with Vietnam is different than the relationship of Sweden or Japan or some of the others. We still have personal friends, sons, brothers, who are in Vietnam who may be alive today. We have information which indicates they were alive as much as 18 months ago, but Vietnam will not give us any help.
>
> Our President went to Mississippi and made the point

12. Part 2, p. 184
13. Part 2, p. 179.
14. Part 2, p. 175.
15. Part 6, p. 660.

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> that he was opposed to any American aid going to Vietnam and the crowd went wild and they jumped and screamed. He did not tell them he was qualifying it; that it was O.K. to go through the World Bank. If he had told these people that he was not going to stop American dollars from going indirectly through the World Bank to Vietnam, the reaction would have been much different.[16]

According to Mr. Young, the World Bank had approved one soft loan for Vietnam and six were pending.

This is not to say that the U.S. effort is a total failure. We have a veto over the use of soft money provided by the United States to the Inter-American Development Bank. As a consequence, the bank management apparently has shifted proposed projects from the soft window to the hard window, thus denying the offending country subsidized funds.[17] But this success depends upon a veto which we do not have elsewhere.

The salary issue is a particularly interesting, but knotty one. The facts, for what they are worth, indicate that the professional salaries in the World Bank and the Inter-American Development Bank are substantially higher than the U.S. Civil Service. In 1974 the Comptroller General of the United States reported that they averaged $35,000 and $33,000 in the two institutions compared with $20,000 in the Civil Service.[18] This looks less inefficient when it is recognized that the average Civil Service salary in selected international departments was $30,000. And the problem is thoroughly muddied by the investigative report praise for the quality of the professional staff of several of the institutions.[19] For a number of years the United States government has pressed the MDBs on the salary issue. American personnel have received a reimbursement for their American taxes so that their salaries would be in line with nationals from other countries that waive their taxes. But this reimbursement has been based on the tax calculated with the standard deduction rather than on actual deductions, resulting in considerable overpayment.[20] A proposal to remove this anomaly

16. Part 6, pp. 740 f.
17. Part 6, p. 662 and Part 2, p. 184.
18. Part 2, p. 135.
19. Part 2, p. 32.
20. Part 2, pp. 155 f.

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is backed by the Executive Branch.

On the corruption issue, the evidence is underwhelming and the basis for the complaint appears to be more speculation than fact. Testimony indicated that the problem was negligible in the World Bank, and there appeared to be adequate controls in the other institutions.[21] As for an Inspector General, the World Bank already has an Operations Evaluation Department which reports to the Board, not to the President of the World Bank.[22] Nonetheless, Mr. Bergsten did support further efforts to strengthen the audit and review mechanism.[23]

The evidence of a significant coordination problem is likewise underwhelming. In project lending, the real coordinator is the price mechanism. Costs of inputs and prices of outputs are compared to derive returns. If there were evidence that the MDBs were using seriously different prices and costs in estimating the rate of return on projects, the charge would be sustained, for then they would be misallocating their combined resources. Unfortunately, no such evidence was offered in the investigative report or in the hearings.

Finally, there is the question of the poor. Mr. Long put the issue neatly when he said, "That is what bothers me, the idea that economic development is a device for taking money from poor people in rich countries and giving it to rich people in poor countries." Anybody who has seen the poor in less-developed countries and the awful misery they must endure can hardly disagree with this concern. Mr. Bergsten testified that

> The banks have, as a first step, shifted the sectoral composition of their lending activity in favor of those sectors which prima facie are likely to have greater impact on the poor. In recognition of the fact that an estimated 80 percent of the world's poor live in rural areas, this has resulted in greater lending to the agricultural and rural development sector.[24]

21. Part 6, pp. 950 ff. But see p. 706 for evidence of the problem. And for a comparison with U.S. institutions, see p. 704.

22. Part 6, p. 924.

23. Part 6, pp. 882 ff.

24. Statement of the Honorable C. Fred Bergsten, April 25, 1979, p. 17. For some reason, this statement was not included in the record; for the discussion, see Part 6, p. 859.

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The Administration and the committee seemed to share consensus that increased emphasis on helping the poor within the less-developed countries was a good thing.[25] But the record is peculiarly empty of evidence that direct assistance to the poor is superior to indirect assistance that invests in the projects with the highest rate of return. The United States is a superb monument to the trickle-down theory, the private enterprise system. And the record of specific measures taken to help the poor, such as the minimum wage, is abysmal. One would have expected some analysis of the issue, but the statistical base is lacking.[26] However, the record makes it clear that there are costs to this shift in resource allocations. As the investigative report says, ". . . one must recognize that cost overruns and institutional failures would be expected to be more prevalent in development lending, particularly concessional loans and social projects directed to reach the poorest of the poor. . ."[27] The Administration recognized the problem when it wrote that loans for basic human needs ". . . are difficult to prepare and implement and require much greater staff time than traditional infrastructure projects."[28]

Neither the investigative report nor the hearings pursued two extremely interesting issues of policy. One is the question of dividend policy, which has enormous implications, and the other is the efficacy of soft loans. The two are closely interrelated.

Dividend Policy

The MDBs do not pay dividends to their member governments. The World Bank instead transfers $100-$110 million per annum to its soft loan window, the International Development Association. The investigative report noted that "There has been some pressure within the World Bank to cease the transfers of IBRD revenue to IDA and declare dividends instead as a means of creating greater cost consciousness and control over administrative expenses."[29]

25. Statement, April 25, 1979, p. 19.
26. Part 2, p. 21.
27. Part 2, p. 40.
28. "Shaping U.S. Participation in the International Financial Institution," Treasury Department, February 1978.
29. Part 2, p. 16.

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While there may be merit in the argument about the effect on costs, it misses the main point. Only if there are dividends can the national governments hope to sell the MDBs. If their shares were sold in the private marketplace, certain obvious advantages would accrue. If the banks had to please their private stockholders instead of the national governments, attempts to politicize and protect these institutions would cease. We could be more confident that their resources were allocated optimally. The American taxpayer would be relieved of a burden that includes substantial contingent liablities in the event of a default on the MDB loans. The Treasury might enjoy a capital gain.

Is it farfetched to propose the denationalization of the MDBs? I think not. World Bank bonds sell at yields very close to those of the Treasury, which suggests that the Bank can raise capital readily. It can be argued that this is only because the United States government in effect guarantees those bonds; one must wonder if this is really so. First, the World Bank has never had a default and has rescheduled only two loans. Second, the World Bank has no foreign exchange rate risk, given the covenants and policies employed. Third, there are enormous gains from buying into the diversified portfolio of loans the World Bank has assembled.

This last point is, to my knowledge, a new and rather subtle point, which follows from recent discussion of the multinational corporation. It has long been recognized that an investor can reduce his risk for a given rate of return by purchasing a diversified portfolio of common stocks. To the degree that the returns on the individual stock are uncorrelated, the risk of the total portfolio is reduced to a level below the average of the stocks. Increasingly, it has been understood that the multinational corporation, by spreading its investments over a wide number of projects in a large number of countries, provides the same kind of benefits to the stockholders. Professor Dan Lessard has estimated that an American investor, by diversifying internationally, can reduce his risk by one third for a given rate of return.[30] The World Bank has well over a thousand loans, in more than one hundred countries, in its portfolio of more than

30. Donald R. Lessard, Appendix to Chapter 7, in David K. Eiteman and Arthur I. Stonehill, *Multinational Business Finance* (Reading: Addison-Weslay, 1979) p. 254.

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$30 billion. Clearly, the notion of selling the World Bank deserves careful examination.

Superior Efficiency of Hard Loans

The soft loans of the MDBs came in for mild criticism. Thus, Chairman Long remarked about his visit to a fishpond in Colombia.

> It was kind of a flop because there were no fish in it. I got a little annoyed that they took me all that distance to look at a hole in the ground with some water in it, but they did tell me something about the economics of it which bothers me. First they told me it was going to be a very profitable project, would earn back the investment in a very short time. The next thing they told me was it was a soft loan, one for very low interest over a long period of time. I said, "Why put a soft loan money into a project that is supposed to pay off as well as this?"

Each of the MDBs has a soft loan window. Approximately one third of their loans have been on soft terms in the last two years for which data are available.[31] The International Development Association, the soft window of the World Bank, loans money for fifty years with an annual service charge of three fourths of one percent. The terms of the other soft windows are comparable. Each of the soft windows receives gifts from the member governments.

Chairman Long's question poses an interesting issue for the less-developed countries. Since the MDBs do not declare dividends, their earnings really accrue to the less-developed countries in the form of resources that can be loaned to them in the future. To the extent that the MDBs charge less interest than the projects would bear, the pot for the less-developed world as a whole is reduced below what it otherwise would be. In effect, the country that gets a soft loan exploits the group as a whole. This seems fair, since there are few channels for the transmission of assistance from the richer of the poor to the least-developed countries and since the bulk of the soft loans go to the poorer of the poor countries.

But this policy contains a serious and costly flaw. If one wishes to raise the real income of a country, soft loans are

31. *Development Cooperation* (Paris: Organization for Economic Cooperation and Development, November 1978) Table C.3.

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always less inefficient than either hard loans or grants. Furthermore, the choice of kind of assistance, loans or grants, has nothing to do with the recipient's level of income. Rather, the choice depends upon the yields on projects. Two simple examples will make this clear.

Suppose that the rich part of the underdeveloped world wants to raise the real income of the poorest part by one dollar per annum for the next fifty years. Assume that the yield on capital in the poorest part is ten percent per annum. The rich less-developed countries can achieve their objective by any one of the following: 1) an annual grant of one dollar for each of the next fifty years, 2) a loan of ten dollars at zero interest to be repaid in fifty years (a ten dollar investment at a ten percent yield will produce one dollar per annum), and 3) a loan of one hundred dollars at nine percent to be repaid in fifty years (one hundred dollar investment at a ten percent rate of return with an interest cost of nine percent yields a net increase in income of one dollar per annum).

Each of the three alternatives brings the same benefits to the recipient, so the recipient should be indifferent toward them. Which would the benefactor prefer? The annual grant costs the richer poor country one dollar per annum. The zero interest loan of ten dollars costs the benefactor whatever it could have earned on investments at home — five percent, or fifty cents, per annum. But the loan of one hundred dollars at nine percent actually benefits the lender by four dollars per year if it could have been invested at home at five percent. In this situation, the hard loan is clearly preferable to the soft loan. The reason is that the interest rate is between the yields on capital; therefore, both the borrower and the lender benefit for each dollar loaned.

If we switch the yields around so that investments in the poorer part of the Third World yield only five percent while those in the richer part yield ten percent, annual grants cost less than soft loans. The hard loan with an interest rate between the two yields is not an option because the yield on capital in the benefactor nation is ten percent while the yield on capital in the recipient nation is only five percent. No loan can simultaneously benefit both parties. The interest rate would have to be below five percent to aid the poorer country, and such an interest rate would clearly cost the lender, who can invest at home at ten percent.

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As for the choice between an annual grant and a soft loan in these circumstances, the comparison clearly favours the grant. The grant costs the benefactor one dollar per annum. A soft loan of twenty dollars at zero interest for fifty years, if invested at five percent, would produce an increment in the recipient's income of one dollar per annum. But the cost of that loan to the lender who can invest at home at ten percent is two dollars per annum, or twice the cost of the annual grant. In the case of a higher interest rate – say four percent – the loan would have to be increased to one hundred dollars to yield an increment of one dollar per annum to the recipient who invests at a return of five percent, and the cost to the lender would rise to six dollars per annum – the difference between the rate of interest on the loan of four percent and the yield on capital at home of ten percent, multiplied by the size of the loan. Paradoxical as it may seem, it is in fact cheaper to give the money away than to lend it when the yield on investment in the recipient country is below that in the benefactor nation.

These results do not depend upon the particular numbers.[32] When the yield on investments in the recipient country exceeds that in the benefactor, both are better off with a hard loan because it is possible to set an interest rate between the two yields, that both parties gain. Only the size of the loan needs to be varied to achieve the target increase in the real income of the recipient. Since funds are being moved from lower to higher yields such that both parties gain. Only the size of the loan needs to be varied to achieve the target increase in the real income of the recipient. Since funds are being moved from lower to higher the combined total output of the two countries declines. In such circumstances, it is best to delay the transfer of resources for as long as possible. A loan transfers a major amount of resources immediately, whereas an annual grant transfers small amounts slowly.

With a third of the MDBs loans taking the form of soft loans, the waste is enormous. If the MDBs never declare dividends, the less-developed countries as a whole are the losers. If they were to shift to paying dividends, then the advanced countries

32. Wilson E. Schmidt, "The Economics of Charity," *Journal of Political Economy*, (August 1964); and subsequent discussions in the same journal by Charles Frank in September/October 1970; and Yew-Kwang Ng in March/April 1973.

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would be losers in any given transfer of funds to the less-developed world, because the dividends would be reduced. Either way, soft loans are losers. The World Bank should stop transferring its profits to the International Development Association. The MDBs and the national governments should review their soft loan policies.

In addressing the expressed congressional concerns with respect to the policies and operations of the MDBs, the prime target of examination quickly centers on the question of control. The "political status" of the MDBs and the question of whether their policies mirror the political designs of supportive governments will likely continue to be debated. Rather than dwell on peripheral issues such as the staff salaries of the Banks or the inescapable management problems when dealing with less developed countries, it is time for major innovative restructuring of the Banks' operational procedures.

As suggested here, there are two changes that the U.S. should examine and perhaps concurrently propose through her various Executive Directors. Implementation of a dividend policy, subsequently leading toward a true denationalization of the Banks, is an increasingly popular proposal both from the standpoint of alleviating to a small degree the U.S. taxpayers' burden of obligation and, most importantly, offering an attractive investment in an operation whose portfolio is manifestly diversified. Secondly, no pertinent congressional discussion, to date, has adequately focused on the effectiveness of soft loans, in any sort of economic comparison between the donors' benefits from the use of hard loans and outright grants versus soft loans in Third World lending.

Logically speaking, the advanced members of the Banks should first decide whether they want dividends, for that determined whether the rates of return in the advanced countries are relevant to the choice between hard loans and annual grants. Then rates of return should be examined in the relevant benefactor and recipient nations to determine the choice of the form of aid. Finally, the amount of aid should be decided. Only in this way can the MDBs become a rational instrument of development assistance.

It would be fitting for the United States government to initiate this review, because it was the U.S. that caused the mistake. When it first offered to make funds available to what became

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the International Development Association, the management of the World Bank preferred to pass them on in the form of grants;[33] the United States government fought for loans. It is now time to rectify our mistake. It will not be a big hassle, since at least the International Development Association has authority to make grants.[34]

33. David A. Baldwin, *Economic Development and American Foreign Policy* (Chicago: University of Chicago Press, 1966) p. 98; Edward S. Mason and Robert E. Asher, *The World Bank Since Bretton Woods* (Washington: Brookings Institution, 1973) p. 394.

34. Part 2, p. 40.

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Should the Government Subsidize the Arts?

ERNEST van den HAAG

When Sinclair Lewis wrote *Babbitt*, middle America regarded the arts and humanities as an effete Eastern indulgence appropriate at best for women and college professors. *Tempora mutantur et nos mutamus in illis.* The *New Yorker* magazine is now eagerly read by the little old ladies in Dubuque, for whom it was not meant. More than forty percent of the relevant age group attends college; many students come out with a vague but strong feeling that art is more creative and romantic than business and science; it also seems to go better with pleasure and sex. The arts now are madly in fashion throughout the country. Artists readily become media celebrities.

The government has jumped into the arts with both feet (not an inept metaphor); it has decided that the arts require subsidies and a bureaucracy to administer them. Our government is convinced that everything good ought to be subsidized. Not even sex is an exception; the federal government subsidizes courses in sex education — teaching, at least, how not to do it. The government always concerns itself with problems — usually by means of subsidies — when a constituency can be discerned or created. Now there is one for the arts. Hence, Presidents, congressmen and senators can acquire cachet and reputations as cultivated and sensitive intellectuals by advocating more federal expenditures on the arts. President Kennedy started much of the rhetoric; President Nixon increased the budgetary appropriations. Ever since, the federal budget for the arts in all forms has grown by leaps and bounds. Although they deplore high taxes and huge benefits, the Congress and the Executive have been remarkably generous to the arts. The matter raises some questions:

(1) What is the role of the arts in American society, and what can it be? What should it be?

(2) What is the role of the government in the arts? What should it be? Do Americans want their tax money to be spent for the arts by their representatives? Or, would they prefer to decide individually how much money to spend on works of

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art and on which works? What would happen without government subsidies?

(3) If the arts actually do require a government subsidy, what or who should be subsidized and by what selection procedures?

Although major philosophers such as Plato and Hegel were doubtful about their value, much can be said for the arts. However, it is essential to distinguish arguments for the arts and for their support from arguments for government support of the arts. This essential distinction is seldom made. Yet, whatever can be said for the arts is certainly not sufficient by itself to justify any government subsidies. To be sure, the arts give pleasure to some – a special quality of pleasure or, better, desired experience – and employment to others. But so do whiskey and religion. Hence, an argument for government support of the arts must indicate not only what characteristics make the arts socially (and not just individually) desirable or necessary, but also those characteristics that suggest why government subsidies to the arts are justified and needed while they are not for whiskey or religion. It must be shown that private funds are not likely to support the arts to the degree or in the manner justified by their social usefulness, while government subsidies can do so.

The type of argument required is familiar; it is used to argue for public support of parks, or beaches, or police forces: they are needed, useful and desired, but differ from other nice things that may be purchased privately; they benefit not only the individuals willing to spend money for them, but, to a significant extent, the community as a whole, including those who would not volunteer to pay or cannot afford to. An adequate argument for federal support of the arts must show, then, that they yield indivisible collective benefits (as does the police force). If the arts do yield such benefits and they are of sufficient magnitude, the government is justified in compelling individuals to pay taxes, compulsory levies, to pay for the arts, regardless of whether an individual taxpayer feels benefited. Further, the collective benefit yielded by the arts must be shown to exceed the benefits to be expected if every person were to pay for whatever art he wished and could afford to buy. Finally, there must be good reason to believe that the government will not be (much) worse as a patron of art than private individuals are. Note that whatever arguments there are for

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public support of art probably could be made for subsidies to religion as well. Indeed, religion is subsidized in most European countries. But, for historical-constitutional reasons, no attempt is made to subsidize religion in this country. It has thrived nonetheless – which gives food for thought.

Historical Precedents for Subsidies

The argument for public support of the arts has been convincing since Pericles' time. Sculpture, architecture, music, painting, literature, as well as what today are called the humanities – historiography and scholarship – have been very largely supported by public funds since antiquity. Temples and statues of the gods were erected with public funds. *Mutatis mutandis* public funds were spent for the arts in the Middle Ages. The arts were used to erect monuments to shared beliefs and to celebrate communal feeling; they also celebrated royal houses (literally and symbolically), and the nations, regions and religions of which they were emblematic.

Public expenditures for the arts have begun to be questioned only since the Industrial Revolution. Until then, public funds were disbursed by religious authorities and by the courts of the nobility; no one was able to question them. The distinction between the prince's (or the bishop's) personal funds and those administered by him was vague. He could dispose of either to foster the arts if it pleased him. His expenditure was accepted as it was in antiquity; tradition indicated that the arts, as did religion, bind together, help make into a cohesive whole, the society in which they flourish. They are an essential part of what civilizes, of the meaning-conferring essence, the soul of the culture of any society – as was the religion the arts used to celebrate. (The word, after all, came from *re-ligare*, to bind strongly.) With the Renaissance the arts became more secular. But the princes – of church or state – who supported them were still regarded as the embodiment of the polity. Their taste and their expenditure were not questioned and the glorification of their reign through the arts was seen as the glorification of the polity.

Whatever their merit, these arguments scarcely justify tax-paid subsidies for the arts today, particularly in the U.S. The arguments are relevant neither to modern art in modern conditions, nor to ancient art in modern conditions, nor to any art in the U.S. Aristocracy and church have not been

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sufficiently dominant in our political history and mixed up with the nation-forming process to justify replacing their support of the arts with a government subsidy. Nor did the arts themselves ever play much of a role in sustaining our national cohesion. They do not now.

Whatever the value of opera (I happen to be a passionate opera lover), it cannot be said, as it may be said in Italy or Austria, that opera has contributed to our national cohesion, history, culture, or consciousness – or that it has any chance of doing so now. Opera was an exotic import of and for the rich who were also willing to pay for it. The educated middle class is getting interested in it now. But, it is not clear why those who want opera are entitled to compel others to pay for it – even though these others, in the main, prefer unsubsidized movies or Broadway shows. A subsidy to opera supports or expands our national consciousness as much as a subsidy to the manufacture or the wearing of tails and top hats would.

What is true for opera is as true for classical music, for dance, including ballet, and, by and large, for the great works of art in our museums. They did not play an important role in our history or in forging or celebrating our national bonds – though they did in Europe (which, however, survived their export). We have marvelous things in our museums. But they did not get there through government activities and did not celebrate those activities or our national history, cultural or political. The contents of our museums have nothing to do with our national life, and they have not contributed to our national cohesion or identity. They are politically and socially irrelevant to us (whatever their aesthetic merit).

Tin pan alley, jazz, rock, or baseball are more important in the celebration of American values, not only in the working classes and among adolescents, but also in the upper classes and even among educated groups. They need no subsidy.

Subsidizations of Sports and TV

For quite a while, sports (and now TV) have been important elements in our culture and our cohesion, together with the automobile and the lengthening years of instructional and custodial care in schools imposed on the young. But the arts? Certainly not those in museums. Nor the modern artists the government is eager to subsidize. They may or may not be great. But they are at best marginal to American culture. It is

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not likely that this will change.

If TV or if sports do play the role I have attributed to them, should they be subsidized? They seem to do quite well, thank you, without government subsidy. If the exclusive support of TV by advertisers is regarded as a hindrance to possible informational or aesthetic achievements, there is no reason that TV could not be paid for directly by the viewers, as books or magazines are paid for by those who buy them or are willing to subsidize them. Unsubsidized literature has done well in the U.S. The case for public TV is as questionable as the case for government-financed newspapers, magazines or books even though the federal and local governments insist on subsidizing public TV and radio.[1]

Unavoidably, public TV is biased. The values presented are not those prevailing among Americans at large, but those of the producers and of the public TV audience, both middle-class liberal. In its more political presentations public TV is definitely "left" of the public that pays for it. (No conspiracy: the people involved find it hard to take seriously values other than their own.) Apart from everything else it seems hard to justify publicly subsidized TV, for it simply amounts to a tax-paid subsidy to upper middle class viewers dissatisfied with commercial offerings addressed to the less educated.

To summarize: the arts are not among the activities which contribute enough to social cohesion, national identity, or shared values in the U.S. to justify support by the government. On the other hand, the activities which would deserve support on these grounds scarcely need it. Sports and TV and rock concerts are doing all right without government subsidy. The schools already are amply supported, and they do incidentally support the arts by supporting artists, writers and other representatives of the arts directly and indirectly.

So far I have confined myself to denying that there is any justification for government subsidies to the arts under modern American conditions. The tacit assumption was that, whether or not a subsidy could be justified, the government could help the arts to flower by subsidizing them. This assumption must now be questioned: it seems unlikely that the government

1. New York City, teetering on the edge of bankruptcy, insists on taxing business to support its own radio and TV stations. (The cost is negligible, but why is it needed? As a tourist attraction?)

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can help the arts by subsidizing them. Even though it does inflate the quantity of art produced, the government subsidy may actually harm the arts.

The most cogent argument against any form of censorship of art by the government[2] is, very simply, that the government is unlikely to be able to tell bad, worthless (pseudo) art from good. Wherefore, censorship would damage the arts by suppressing "good" as readily as "bad" art. If the government could distinguish valuable from valueless art and would get rid of only the worthless stuff, censorship would make everyone's life easier, as garbage removal does. But no one attributes such powers of discrimination to the government. Indeed, a major part of the general argument for freedom is that we cannot trust any government (democratic or otherwise) to tell vice from virtue, good from bad. If we could, we might not mind if the government subsidized virtue and suppressed vice. As it is, we prefer to leave such decisions to individuals (a few extreme cases excepted), because we have no reason to believe that the government could do better and much reason to believe it would do worse.

Well, if the government cannot be trusted to tell which art is so bad as to deserve suppression, how can it be trusted to tell which art is so good as to deserve subsidization? Either the government can or it cannot tell good from bad art. The answer is that it cannot. This seems to me just as conclusive an argument against government subsidies to art, as it is an argument against government censorship of art.[3]

In practice the government's subsidies to art unavoidably become indiscriminate. (This is how the government protects itself against criticism and creates a wide, supportive constituency.) The government cannot actually subsidize art. At best it can and will subsidize a wide range of organizations or persons who claim to be producing art.

Supporting Fool's Gold

Now, a lot of ore has to be mined to get a little gold. One may argue that a lot of subsidy has to be spent on many un-

2. Let me leave aside pornography here.

3. The traditional European subsidies (often combined with censorship) were given by taste-makers, by a cultural elite. Our government does not aspire to that status and we have no tradition conferring it. (*Deo gratias*).

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worthy artists so that the few worthy artists can be helped. However, there are relevant differences between mining and subsidized art production.

One difference need only be restated. Mining is not subsidized. It pays for itself – the purchasers of the metal pay more than enough for the necessary processes, including the mining of the ore that has to be discarded. Gold mining, thus, is analogous to the private purchase of art or, if you please, the private subsidy given to art producers. It is not analogous to government subsidies. Subsidies suggest that whatever worthwhile art they help produce is not worth enough to the public to persuade it to pay for the whole process, including the worthless art that is being subsidized. Thus, the government compels the taxpayer to do what he does not volunteer to do. I can find no justification for this policy.

There is an even more important difference between mining ore and art production. Payments to the mining industry may lead to more exploration and mining. But they cannot increase the total amount of gold-bearing ore that nature provided. Above all, such payments will not encourage the production of fake or imitation gold since consumers (and even the government) are quite capable of discriminating. Subsidies to art also may lead to more utilization of talent, although they cannot increase the pool of artistic talent provided by nature. But – and this is the decisive difference – a subsidy to art will attract people who would not have become artists without it. Art, unlike gold, is not definable so that the government could exclude subsidies to the untalented. We are forced to subsidize the mining of fool's gold as much as the mining of actual artistic gold, for the government cannot discriminate. The more we subsidize, the larger *the proportion* of fool's gold, of pseudo-art, in the end product being subsidized.

Normally, art production is self-selective. Few people produce art for the sake of money. The main reward is intrinsic – *ars gratia artis*. Artists are willing to risk foregoing income for the sake of self-rewarding achievement however much they hope it will be publicly recognized and become materially rewarding as well. Not that hungry artists are better artists. On the contrary. But the high risk of low income deters those more interested in income than in art and leaves mainly those who are artists for the sake of art, whether or not they are able to produce anything valuable.

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Subsidies, however, will increase art production by attracting producers who, without the subsidy, would not have produced — those whose passion for art was not sufficient, without the subsidy, to induce them to risk sacrificing income. Subsidies may actually make it harder for true artists to succeed. Although more money is made available, there also is more competition for it. In this competition, the true artist is likely to be undone by those who, consciously or unconsciously, are interested mainly in money. They will be more worldly-wise, better competitors. After all, they are not distracted by artistic concerns and ambitions.

Lacking original talent, the pseudo artist will be more imitative and, therefore, more easily understood and more appealing — and more eligible for subsidies. A subsidy to something or somebody actually original and valid is harder to justify than a subsidy to something appealing, unoriginal and, therefore, more easily understood. Those in charge of subsidization will be safer by going with the fashion, not by helping unknowns who create new things. (This reasoning applies least to those matters which can be demonstrated, for instance, by experiment — and most to the least demonstrable things, foremost art.)

To speak of subsidizing art is, of course, to use a metaphor. One can only buy specific works of art or help specific artists. Since there are no generally accepted qualifications and no agreement on what or who is meritorious, government organizations must subsidize artists who have already been widely recognized — and need the subsidy least — or distribute their bounty so that every claimant supported by regional taste or by the taste of any major social group gets some. (This is, among other things, what Mr. Herbert Gans advocates in his *Popular Culture.*[4]) Aesthetically this is counterproductive. Bad art, as does bad money, drives out good.

Government subsidies, finally, are biased in favor of the performing arts. Officials feel they can measure quality by the dubious gauge of popularity; this is easier to do with an orchestra than with a composer. The performing arts also involve far more people — performers, support personnel

4. Basic Books, New York, 1975. Gans has a populist point; rather than rely on the government's aesthetic discrimination, we might as well give up aesthetic discrimination, a middle class prejudice, and replace it by some sort of popular vote.

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and the public – than are involved in the lonely act of, say, composing a score or writing a critical essay. Hence, a large constituency. Wherefore, more and more subsidies go to the performing arts. The Metropolitan Opera or the Duluth Philharmonic is subsidized. The further natural bias of subsidies is toward popular performances and expansion of audiences at the expense of quality. It is in this way that political support can be secured.

Much more could be said along these lines. But the idea should be clear by now. (a) There is no good sociopolitical reason for the government to compel taxpayers to subsidize government-selected art; (b) to do so compels all classes to subsidize the middle class; (c) to do so is more likely to harm than to help in the creation of actual, valuable art.

Subsidies to Museums

What would happen if the government – local and federal – were to cease supporting the arts?[5] What would happen to museums and galleries which have come to depend on subsidies?

Museums acquire, preserve and display art both of the past and of the present. (They also engage in scholarly and educational activities incidental to their task.) Since much of the acquisition funds of museums now comes from private donations, government subsidies here are unimportant. Even if museums, left without subsidies, ceased to buy art and use acquisition money for maintenance, there would be no damage. The migration of old art from Europe and Asia into the U.S. and from private into public hands would be slowed. (The prices paid for ancient art would fall.) Since most museums have far more art than they are able to display, no less would be displayed than is now displayed. The egos of museum directors and curators would suffer greatly. But there would be no other damage. Failure to buy modern art would reduce its prices somewhat and its production. Again, no other effects are likely. Art is not produced for museums. Nor should it be. But, let me repeat, most acquisition would continue since funding for this purpose is supplied by private donations.

Preservation of art, old or new, however acquired, is costly. So is the display of art under reasonable conditions. It is this

5. I distinguish tax exemption (not taking money) from support (giving money) and do not oppose the first.

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cost, which museums incur unavoidably, that is largely paid for by public subsidies. There is an arguable social interest in preserving art for future generations; hence, some of the cost of preservation, as distinguished from the cost of display, may well be defrayed out of tax funds. However, there is no reason why those who are currently gratified by viewing art should compel others to pay for their gratification, no reason for museum visitors to contribute as little as they do now to the upkeep of the museums they visit. People are willing to pay, on the average, fifteen to thirty dollars to attend a Broadway show for two hours. There is no reason to pay less to attend a museum. (Preferred, habitual categories of viewers might be offered low subscription rates.) Would museums survive? Churches have survived by voluntary contributions without government subsidies. Museums could charge admission *and* expect donations. So could opera houses and symphony orchestras. They would survive — although their rate of expansion would be curtailed.

Raising the cost of attendance would thin the ranks of museum visitors (thereby reducing upkeep costs as well as paying a greater proportion of those costs). Lower attendance is regarded as a calamity by pedagogues who feel it necessary to make art available free of charge — even to stuff it down people's throats. Everything else — from bread to concerts — costs money. Why should art be free? There is, of course, no free art any more than there is a free lunch. Museum visits free to the visitor are paid for by taxpayers — largely by people whose incomes are lower than those of most museum visitors. I can see no justification for the shifting of the cost.

Reasonable entrance fees would solve a disturbing problem, deliberately neglected by administrators. Because they like popularity and wide support — which increase their power, their prestige and their subsidies and salaries — administrators pay no heed to the problems caused by crowding for those who actually come for the sake of seeing art. The treasures of the past are finite; the number of potential viewers is infinite. In each generation only a few can actually see them. But since museums are costless to visitors, they now attract crowds so big as to make it nearly impossible for any individual to contemplate and experience the art they display. Their popularity defeats much of the serious purpose used to justify subsidizing museums. People are herded through galleries —

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they willingly trot by paintings driven by boredom and by others – so that everybody can satisfy his curiosity and gratify his sense of accomplishment.

If crowds were thinner, as they would be, if a visit to the museum were to cost as much as attendance at a Broadway show, those who would still go to a museum would be able to enjoy it. They would find the conditions which make possible the aesthetic experience a museum can help them to achieve.

The absence of subsidies would have similar effects on the performing arts. The price of tickets would rise. Attendance would be reduced. Fewer performances would occur if people would not voluntarily pay for all the performances now subsidized. There would be an additional beneficial effect. The wages now paid performing artists and supporting personnel would decrease with the demand for them. I do not see much reason for a subsidy that leads them to earn far more than those from whom the money is taken. This redistribution is as involuntary as it is undesirable.

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Making Policy in a Vacuum: The Case of Labor Relations

DAN C. HELDMAN

The United States Congress, executive regulatory agencies, and the courts have been creating policies affecting labor-management relations for more than four decades. As a consequence, the conditions of employment in this country are determined by laws, regulations, and judicial decisions which, taken together, have created a unique system of industrial relations.[1] Yet, to a remarkable degree, this massive body of policy decisions has developed without, or even in spite of, precise, definitive, persuasive, and accurate information. Time and time again, problems have appeared out of thin air, issues have been reformulated to avoid the most important questions, and relevant data have been unsought or ignored. The resulting policies may not necessarily be wrong, but they must be suspect. There is a need to rethink the appropriate questions.

If the necessary answers are missing, it is largely because analysts seem to find that asking the important questions is not professionally beneficial. Scholars do not investigate subjects regarded in their profession as settled, such as the relationship between the radius and circumference of a circle. The journals do not publish articles on those subjects; research funds are lacking. In the field of labor relations, scholarly analysis is vigorous in some areas, woefully inadequate in others. The field suffers, demonstrably, from what might be called the "Soviet scholarship syndrome," the practice of prefacing some tendentious or unsupported proposition with such assertions as "everyone knows" or "it is well known." In the legislative histories of numerous significant labor bills, in the texts of the resulting laws, in the actions of regulatory agencies, and in court

1. For ease of analysis, the primary focus here will be the period beginning roughly with the passage of the Wagner Act (1935): though hardly the first instance of a government action affecting labor (the Railway Labor Act was passed in 1926), this Act does effectively mark the modern age of labor relations. Occasional reference will also be made to the public sector of employment, and any references to federal-level agencies should be extended to include their counterparts on the state and local levels. By and large, these latter agencies follow the federal lead.

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decisions, there are gaping holes in policy decisions and interpretations – holes where wishful thinking, traditional notions, and politically contrived preconceptions have been substituted for informed research.

We are faced, in short, with a system of industrial relations set up in an informational vacuum – a state of affairs which those who study the policymaking process unconditionally condemn. There is no doubt that the agencies involved would reject this assessment, but the conclusion is voiced increasingly often in the professional literature. Scholars in growing numbers are discovering that there are large problem areas in which the answers are unavailable or contradictory.

We do not know, for example, just how many union members there are in the United States. At least six different figures exist, none of them fully reliable. The most popular figure is provided by the Bureau of Labor Statistics (BLS), on the basis of forms unions file with the Department of Labor. Department officials routinely accept the union figure even when there is reason to believe it may be inaccurate. BLS officials make no sustained attempt to verify the unions' responses, nor even to impose standard definitions of terms (despite certain knowledge that various unions define "member" differently).

Other varying figures on union membership may be found in the self-congratulatory reports union leaders deliver to their national conventions (presumably inflated estimates), in the per capita tax payments unions make to the AFL-CIO (presumably depressed), and in the forms submitted to the Internal Revenue Service. A fifth set of figures has emerged from a massive (55,000 households) nationwide survey conducted under the joint auspices of the Department of Labor and the Census Bureau since 1973.[2] Though the Department has chosen not to publicize them, these survey figures suggest a much different level of union membership. And yet another set of figures emerges from a review of sixteen years of public opinion polls[3]: union membership ranged from an average of 25 percent of the

2. Computer printouts of these data are in the possession of the author. Reports based on the data have been issued by the Department of Labor but they have never dealt with this particular matter.

3. Dan C. Heldman and Deborah L. Knight, *Unions And Lobbying: The Representation Function* (Washington, D.C.: Foundation for the Advancement of the Public Trust, 1979).

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sampled adult population in the 1960s to as low as 14 percent in 1974-1976.[4]

Researchers who work with estimates of union membership have generally failed to recognize the inadequacy of their data or to consider that other, more accurate figures may exist. They most often use BLS tables because the alternate Census Bureau data (which are methodologically more reliable) are little known beyond a small circle. The Bureau is considered "disinterested," whereas the unions themselves might benefit from over-reporting membership to their conventions or under-reporting it to the AFL-CIO. But the BLS data are not derived from internal research; they are provided, unaudited, by the unions.

Moreover, there is reason to suspect the Bureau's "disinterest." On more than one occasion, data considered objectionable to the national union leadership have been left unpublicized. In 1960, for example, the discovery that unions were the recipients of some $1.5 billion in annual earnings produced a vigorous union reaction, and the study was never duplicated although the information would have been of great value to researchers. Similarly, BLS withheld the 1976 membership figures for over two and one-half years (far longer than had been normal previously) because, evidently, they showed an unexpected absolute decline in overall membership.

A tremendous volume of research on a wide range of labor questions has been based in part on the use of union membership statistics. The accuracy of this research and the efficacy of the policies it has influenced must now be in doubt.

Policymakers have also continued to operate with a lack of information about election behavior in the determination of union bargaining agents. The National Labor Relations Board (NLRB) has, from its beginning, conceived a veritable mountain of regulations and decisions affecting the permissible behavior of parties to an election. This code of conduct would be ludicrous if applied to political elections, but the Board feels it is justified by various assumptions about "fair play" and employee voting behavior. Although these assumptions are the critical rationale for the Board's intrusion into normally private

4. Attention is drawn to a useful study by Armand Thieblot, *An Analysis Of Data On Union Membership*, Working Paper 38 (St. Louis: Washington University, Center for the Study of American Business, 1978).

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matters, they were never expressly compared with objective data until quite recently. Finally, a group of scholars researched the area (they were forced to sue the NLRB for release of necessary information) and discovered that each of the Board's propositions about how and why employees' votes had little factual foundation.[5] In a disappointingly brief fling at deciding an issue on objective grounds, the Board reversed a long trend of intensively regulating pre-election free speech;[6] a short time later the Board re-reversed itself, deciding in effect that the life experience of its own members was more reliable than scholars' field research.[7] In both the dissenting comments in the first case and the majority opinion in the later reversal, some Board members admitted they simply did not know how closely their assumptions conformed to reality, while others gave the distinct impression they did not wish to know.

The Benefits of Unionization

The preamble to the Wagner Act itself states that its objectives are, among other things, to ensure labor peace and to facilitate the free flow of goods in interstate commerce. No single item of research operationalizes either of these concepts or subjects them to scrutiny. We have thus little evidence indicating whether or not the Act and its later amendments have in fact produced these results. In the public sector, it has long been argued that state legislatures should enact public employee bargaining laws because they would reduce strikes. Many states have now done so and there exist more than twenty years of strike data to test the rationale. The results have been contradictory at best, but on balance the evidence seems to indicate that strikes actually increase in number, length, and size following the legalization of collective bargaining in the public sector.[8] Yet even this evidence has emerged only years

5. Julius Getman, *et al.*, *Union Representation Elections: Law And Reality* (New York: Russell Sage, 1976).

6. See the case of *Shopping Kart Food Market*, 228 NLRB 190, 94 LRRM 1705 (1977).

7. This led, in part, to a surprisingly mild, yet revolutionary, suggestion appearing in the prestigious Harvard law journal that the NLRB might do well to consider setting up an internal research unit. See Myron Roomkin and Roger I. Abrams, "Using Behavioral Evidence In NLRB Regulation: A Proposal," 90 *Harvard Law Review* 1441 (1977).

8. Public Service Research Council, *Public Sector Bargaining And Strikes* (Vienna, Virginia: PSRC, 1978).

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after most states approved such measures: at the time, the presumed consequences of unionization were nothing more than untested assertions which legislators wanted to believe. Has interstate commerce been facilitated by unionized collective bargaining? No one knows, although this presumption was the major constitutional hook on which the U. S. Supreme Court hung the legality of this federal legislation.

As we have noted, very little is known about the financial structure of American unions. The first attempt to learn (and disseminate) more on this subject was frustrated by union opposition in 1961. Although the raw data are gathered regularly (again from unaudited union submissions to BLS), the Department of Labor has not seen fit to publicize the results for the past eighteen years. In a period of intense interest and criticism regarding the financial resources of "Big Business," only a few scholars have independently attempted (with minimal assistance from the Department of Labor) to estimate the income and expenditures of "Big Unions." The surprising results of these studies[9] are lost in the welter of voices propounding the myth of David (the unions) against Goliath (business).

In the press, in legislative hearing rooms, indeed even in the writings of academics (who should be more aware of the necessity for precise language), unions are constantly equated with "labor" and union leaders are routinely assumed to represent the interests not only of their memberships but of all employees everywhere. In any other context, this matter would have been investigated by dozens of researchers over the years. Political scientists have developed a substantial body of literature on the representation function in government and have devised numerous measures of the degree to which an elected representative mirrors the opinions of his constituency. Except for a few scattered references and hints,[10] little is known about the representative nature of unions. Only very recently has any

9. Dan C. Heldman, *American Labor Unions: Political Values And Financial Structure* (Washington, D.C.: Council on American Affairs, 1977); Leo Troy, "The Finances Of American Unions, 1962-1969," *Explorations In Economic Research*, Volume 2, Number 2, Spring 1975.

10. Paul Sultan, *The Disenchanted Unionist* (New York: Harper, 1963); Raymond E. Miles and J. B. Ritchie, "Leadership Attitudes Among Union Officials," *Industrial Relations*, October 1968.

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intensive work been done on the question,[11] and it has been limited to social and political issues.

One major critic has noted that the scholarly journals devote a decreasing amount of space to most of the interesting subjects – in spite of the fact that the available research has led to greater rather than less confusion.[12] One example is the question of unionization and wage benefits. A cardinal tenet of unionization is that it produces economic benefits (direct advantages to employees in the form of higher pay, more fringe benefits, shorter hours, and so forth). Yet every new article, paper, and book on union benefits either advances a different answer or confirms once more that the union position has little foundation in economic fact. There seems to be little doubt, for example, that despite the most intensive pressures of the union movement over more than eighty years, the proportion of output going to labor has not changed by any significant fraction; the division of capital among the various elements of production has remained remarkably stable.[13]

Research has produced widely varied estimates of the union-nonunion wage differential, ranging from negative to high positive.[14] Many of the studies purporting to show a positive union benefit have been seriously misinterpreted or technically flawed. They have, for instance, offered only an *average* benefit,

11. Heldman and Knight, *Unions And Lobbying.*

12. George E. Johnson, "Economic Analysis Of Trade Unionism," *American Economic Review*, Volume 65, Number 2, May 1975.

13. Gordon Tullock, *The Sources Of Union Gains*, Research Monograph 2 (Charlottesville, Virginia: Thomas Jefferson Center, 1959); Rodney F. Weiher, *The Union as a Monopoly: An Empirical View*, unpublished Ph.D. dissertation Charlottesville: University of Virginia, 1966); Robert F. McNown and Dwight R. Lee, *Economics in Our Time: Macro Issues* (Chicago: Science Research Associates, Inc., 1976) pp. 120-121.

14. The classic study is that of H. Gregg Lewis, *Unionism And Relative Wages In The United States* (Chicago: University of Chicago Press, 1963). Interesting work challenging the existence of any *positive* union-nonunion differential may be found in G. Allen Balfour, "More Evidence That Unions Do Not Achieve Higher Salaries For Teachers," *Journal of Collective Negotiations*, Fall 1974; William W. Brown and Courtenay C. Stone, "Academic Unions In Higher Education: Impacts on Faculty Salary, Compensation And Promotions," *Economic Inquiry*, July 1977; and Ronald K. Teeples and William J. Baird, "Comparisons Of Contract Provisions For Reservation And Ticket Agents Employed In The Airlines Industry," Center for the Study of Law Structures, Study Paper 101 (Claremont College, California, 1978).

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without discussing the spread of differences around that average (although there are data which indicate that some industries have a higher benefit, others a lower benefit than average). They have dealt only with wage *rates* rather than with employee income, although in many industries, such as construction, higher union wage rates are offset by fewer hours worked. And, most seriously, they have uniformly miscalculated the differentials by failing to consider fully the *costs* of unionization: they have assumed that unionization is free and that employees who gain incur no offsetting expense. Not even union dues are factored into the equations; nor are the wages foregone due to strikes.[15]

We have just begun to raise the questions that any reasonable person would have to consider in assessing the economic impact of unions. The still more fundamental issue of causation is also ignored in the literature. Even after all the above arguments are resolved, what evidence exists to confirm that any positive wage differentials are in fact the result of union activity and would not have been observed in the absence of the union? To what extent are any positive union differentials the consequence of "new unionism" and likely to decrease or disappear as collective bargaining proceeds beyond the first few years following a successful battle for union recognition?[16]

There are other questions for which we have no sure answers. If the proportion of output going to labor is not shifting, what is the source of the purported union wage differentials? Higher productivity? This is seldom the result of union bargaining (except as a *quid pro quo*) and suggests that union labor is more productive than non-union labor — a highly questionable assumption in view of union work rules, if nothing else. Higher prices? This suggests that, over time, the unionized firms will become less competitive and cost-efficient. (There is more than a little truth in this possible explanation. While standard economic theory predicts that such firms would disappear in a truly competitive market, numerous government actions — the

15. James T. Bennett and Manuel H. Johnson, "Free Riders In Labor Unions: Artifice Or Affliction?", *British Journal of Industrial Relation* (forthcoming, 1979).

16. Terry G. Foran, "Unionism And Wage Differentials," *Southern Economic Journal*, October 1973; Gordon Tullock, "The Transitional Gains Trap," *Bell Journal of Economics*, Autumn 1975.

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institution of minimum wage laws, the Davis-Bacon Act, compulsory unionism, exemption of unions from anti-trust laws, and so on – operate to reduce competition and to protect the unionized firm.) Most economists note that positive union differentials, where they exist, are produced at the expense of the non-union employee and/or generally higher levels of unemployment in the industry.[17]

Functional Analysis of Unions

Even less information exists about the social and political impact of unions. Scholars seem to maintain a studied and deliberate distance from any probing analysis of the role unions occupy in our social and political life. Certainly next to nothing has been done on the subject of union organization behavior, the spotty research on racketeering and corruption being a partial exception.[18] Scholars know a great deal about the organizational behavior of businesses, government agencies, political groups, and a wide variety of other organizations, all based upon the objectives which such organizations pursue. Yet, according to two of the country's most highly regarded labor economists, former Secretary of Labor, John Dunlop, and Harvard University President, Derek Bok, we still don't know what unions attempt to maximize.[19] We don't know, in other words, what single objective is fundamental to unions or what standard is available to outside analysts as a measure of organizational success. This is no light matter. Such an ambiguity prevents the construction of any useful broad theory of unions, making it impossible to judge the effectiveness of union operations.

There is an impressive number of propositions in the field of management which are routinely employed to evaluate administrative functions in the business world. A reasonably comprehensive review of the literature reveals no serious effort

17. See, for example, McNown and Lee, p. 121.

18. John Hutchinson, *The Imperfect Union: A History Of Corruption In American Trade Unions* (New York: Dutton, 1972); Randolph H. Boehm, *Organized Crime And Organized Labor* (Washington, D.C.: Foundation for the Advancement of the Public Trusts, 1976).

19. See Derek C. Bok and John Dunlop, *Labor And The American Community* (New York: Simon and Schuster, 1970); also Albert Rees, *The Economics Of Work And Pay* (New York: Harper and Row, 1973).

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to transfer any of these concepts to an analysis of union operations. Yet unions are major financial institutions through which, collectively, pass nearly six billion dollars a year, not including added billions in trust funds. Unions own real estate and securities, employ thousands of people (many of whom are themselves unionized), buy supplies, and provide service to millions of members. But, in spite of all this, the union as a form of business organization is unknown.

This lack of information does not always indicate a lack of effort. Despite a climate of regulatory, political, popular, and journalistic opinion favoring complete exposure of corporate and government finances, unions have been able to maintain a secrecy that extends not only to the general public but even to their own members. To no little degree, government agencies charged with collecting data about union operations assist in keeping such information closely held. Even when forms are filed with the government and obtainable by citizens through the Freedom of Information Act, unions routinely turn down inquiries with the assertion that, as far as they are concerned, the information is confidential. And the reliability of these filings has already been discussed.

Given these difficulties, it is a tribute to the ingenuity of assorted researchers that some partial observations about union organizational behavior can be found — again, many of them somewhat surprising in view of the conventional wisdom. For example, various attempts have been made to analyze the level of democracy in unions. The level appears to be relatively low however it is measured, and few factors at work appear likely to produce any significant change for the better. For instance, union leaders have a generally low opinion of their members (lower even than managers' opinions of subordinates in business and governmental organizations).[20] We know that union leadership positions are seldom contested; that leadership turnover is remarkably low; that there is a stable, self-sustaining, and oligarchic body of union leaders; that union organizations are increasingly centralized; that a wide gap separates the opinions of members from the legislative objectives pursued by union officials; and that a virtually infinitesimal number of member appeals from adverse internal disciplinary actions are

20. See Miles and Ritchie, "Leadership Attitudes," for an innovative though limited research methodology on this question.

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successful.[21]

The "free rider" argument favoring compulsory unionism assumes that unions benefit all whom they represent. All non-union workers in a given bargaining unit are said to be "free riders" because they are receiving benefits without paying any of the union's costs. Leaving aside the numerous ethical, philosophical, propagandistic, and political questions which surround this issue,[22] we look instead at the simple matter of "benefit." What is a "benefit"? Do we always know what it is? Granted that a contract applies to everyone in an employee unit (although it must be recalled that this is a situation artificially created by law), what facts, evidence, or principles enable the union proponents to declare that those contract terms constitute a "benefit" – a positively valued good – for each and every employee covered? The standard union wage paid to every employee is generally unrelated to actual or potential individual productivity; as a consequence, the employee willing and able to produce more is restricted by union work rules and by his inability to earn anything more than the negotiated wage. For such individuals the contract wage, no matter what its level or relationship to the previous wage rate, must be considered a very questionable benefit.[23]

Moreover, a truism of economics teaches that each person carries a unique hierarchy of values by which to judge the benefits of any action. The fact that a union may have negotiated a $.25 per hour wage increase does not automatically transform this change into a benefit as perceived by any particular person: some may feel the union could or should have won a larger increase; some may feel they could have

21. Charles Craypo, "The National Union Convention As An Internal Appeal Tribunal," *Industrial and Labor Relations Review*, July 1964; J. David Edelstein and Malcolm Warner, *Comparative Union Democracy* (New York: Random, 1976); Seymour Martin Lipset, *et al.*, *Union Democracy* (New York: Free Press, 1956); Leon Applebaum and Harry R. Blaine, "The 'Iron Law' Revisited: Oligarchy In Trade Union Locals," *Labor Law Journal*, September 1975.

22. For a good summary of these issues, see Thomas R. Haggard, *Compulsory Unionism, The NLRB, And The Courts*, Report Number 15 (Philadelphia: University of Pennsylvania, The Wharton School, 1977).

23. Note the argument of this point advanced by Philip D. Bradley, *Constitutional Limits To Union Power* (Washington, D.C.: Council on American Affairs, 1976).

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achieved more through individual bargaining had they not lost this right under exclusivity;[24] some may believe the increase will result in a high probability they will be laid off (due to low seniority, for example); some may calculate that they would have to receive the increase for a long period before they recoup wages lost in a strike preceding the new contract; and some may have preferred to see the increase go to fringe benefits (such as pension, health and welfare) rather than wages. In short, we do not know how employees as individuals evaluate the terms of a contract and, not knowing, it would be presumptuous to declare that all contract terms are beneficial to all employees covered. Yet, that unqualified assertion is fundamental to the "free rider" position.

Even more fundamental is the matter of exclusivity itself. Again leaving aside important legal and normative issues involved in this virtually unquestioned privilege,[25] unions supported their initial claims for this grant of power and have countered challenges to it during the intervening forty years by declaring that exclusivity is an absolute prerequisite for stable industrial relations, a healthy union movement, and bargaining efficiency. But these assertions are almost entirely unsupported. Lacking exclusivity and compulsory membership powers, a union in effect would bargain only for its voluntary members. What are the consequences, the effects, the implications of such a situation? We do not know. No research has been conducted on "members-only" bargaining: without this experience in an alternative arrangement, exclusivity is reduced to a proposition which, if it is to be accepted at all, must be accepted on faith alone.

24. The right of "exclusive representation" means that no employee may negotiate terms and conditions of employment outside the union which has been granted this right; thus, at minimum, the union has acquired the power to control all employment-related communications between employees and employers, and no employee may achieve employment terms which vary from the union contract. For additional details, see the following paragraph and its accompanying footnote (25).

25. George Schatzki, "Majority Rule, Exclusive Representation, And The Interests Of Individual Workers: Should Exclusivity Be Abolished?", 123 *University of Pennsylvania Law Review* 897 (1975).

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Costs of Unionization

Even more surprising, in view of the practical applicability of the information, is the lack of research on the costs of unionization to the employer. Unionized collective bargaining is not a costless activity for employees, nor may it be costless for employers: it is entirely possible that the resources an employer must divert to the *mechanics* of collective bargaining might have gone instead to employee benefits. An employer, whether unionized or not, will have some minimally comprehensive program of personnel administration as a necessary part of doing business. The advent of unionization entails a variety of singular costs whose magnitude depends upon the degree to which the process is contested by the employer, employees, or other unions. Once instituted, however, formal unionized collective bargaining could require such additional continuing costs as providing for new specially qualified personnel (permanent staff, outside consultants, negotiators, legal talent); supplying information on demand of the union; formalizing such procedures as grievance handling; using employer time for negotiations; and providing employer-paid time (plus, frequently, office space and related services) for union activities/officials. No scholarly literature has been found that measures the extent of these expenses or analyzes their cost effectiveness. Individual employers may have some idea regarding this matter as it affects a particular enterprise, but the information has not been generalized.

In the public sector, this question is of greater significance because the extra costs must normally be covered by tax revenues. The Public Service Research Council has found that the federal government possesses no aggregate data and that this ignorance extends quite far down the hierarchies even of individual federal agencies. The Council is currently engaged in pursuing a number of "Freedom of Information" requests for data from the executive branch. On the state level, California may soon provide a glimpse into the magnitude of the problem. By law (SB 90), California state government is required to reimburse local governments for the costs they incur in operating programs or policies mandated by the state. The State Board of Control is currently gathering information from local school boards on the new and increased expenses they have experienced in bargaining with the teacher unions. That bill of

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expenses will be presented to the California legislature for an appropriation of funds and, from data provided by private confidential sources, it would appear that the extra costs are running about $55 million annually.

These questions concerning labor-management policy hardly exhaust the list of things about which we ought to know considerably more in order to make reasonable, realistic policies. Virtually all work on the economic impact of unions – sparse though it is – has been limited to the pecuniary outcomes of bargaining. This leaves untouched a whole range of non-pecuniary terms and conditions of employment.[26] Little research has been done on union organizing strategies, cost-effectiveness of organizing, or why unions are increasingly being decertified (removed as bargaining agents) by employees.[27] The very large subject of union organizational involvement in the political process has only recently begun to draw concerted attention, but efforts to describe the influence of special union interests are frequently blunted by the pervasive assumption that unions somehow represent some general public will rather than a limited pressure group.[28] And union capital pressure, looming large on the horizon, has received no scholarly attention at all, although its implications have drawn some limited journalistic inspection. Pension trust funds account for an estimated one-half trillion dollars, of which a large portion is completely or partially controlled by unions. Recently, some union activists have argued vigorously that this investment capital should be used to further union organizing and bargaining objectives.[29]

All things considered, now is an opportune time to launch some comprehensive, hard-headed research and analysis of

26. An interesting initial attempt to do so may be found in L. F. Dunn, "Quantifying Nonpecuniary Returns," *The Journal of Human Resources*, Summer 1977.

27. A first step in looking at the last subject may be found in I. Chafetz and C. R. P. Fraser, "Union Decertification: An Exploratory Analysis," *Industrial Relations*, Winter 1979.

28. A good start here is J. David Greenstone, *Labor In American Politics* (New York: Knopf, 1969). Greenstone makes the classic error in his title of equating "labor" with "unions" when his book in fact deals with union political involvement.

29. See, for example, Jeremy Rifkin and Randy Barber, *The North Will Rise Again: Pensions, Politics And Power In The 1980's* (Boston: Beacon, 1978).

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contemporary industrial relations. In recent years, a number of legislative proposals pertaining to labor and union matters have been introduced; little useful and relevant knowledge has been available to assist in considering these policies. Unless we are satisfied with our ignorance, we should take these legislative initiatives as an appropriate occasion for efforts to correct this abysmal situation. Equally important, we must disseminate new knowledge to those who make policy. Our labor policies have always been plagued by the fact that the few answers we have had — even when these answers have been generally accepted by responsible academic experts — have been neither sought nor considered by policymakers. The objective of policymakers has been and remains the making of policies regardless of the facts or the lack of facts.

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Britain's Permanent Liberal Government

RONALD BUTT

For the past fourteen years, the Left governed Britain. During ten of these years, Labor was in power; for the other four, a Conservative administration allowed itself to be increasingly driven to interventionist policies normally associated with the Left – being finally defeated by the trade unions over pay and prices. The result was a crucial advance both for the Left and for union power.

The dominant politics of the last decade, therefore, even considered at surface-level, has been quite successful in bringing about huge social changes, with the state increasingly taking from the taxpayer to pay the tax-consumer in the name of higher social justice and economic growth. Successful industry has been taxed to preserve jobs in unsuccessful, or naturally contracting, industry. More and more power has been assumed by the state over the things that most crucially concern the welfare of the family (for instance, health care, housing and education) with Labor politicians showing increasingly bitter resentment towards anyone who seeks to contract out.

Society has also been increasingly collectivized and unionized in successive stages, starting with the first Wilson government's National Plan and continuing through the "social contract" between the Labor government and the unions, which gave the unions the social legislation they demanded (including that which has made the closed shop a tyrannous reality through much of British industry) in exchange for an undertaking by the unions to restrain wage settlements. The pay policy has now collapsed into chaos which leaves the economy in many ways worse off than ever.

Even the staunchest socialist could not maintain that it has been a period of success. The condition of the economy speaks for itself; the state welfare services too often deliver sub-standard goods because they attempt too much and waste the resources they have. Nevertheless, the long hegemony of left-wing politics has hardened an intellectual climate which assumes that an interventionist approach is the norm and must be right.

However, the dominant intellectual fashion does not restrict

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the involvement of the state to economic policy and social welfare alone. It also assumes that it is right for the state to use its patronage and its money for purposes designed to encourage changes in society dictated by the will of an intellectual elite which has clearly envisaged objectives.

It is from this elite that the politicians increasingly take their direction, and it is my belief that the sum total change that is being effected in this way may prove to be even more effective in undermining the foundations of society in Britain than the more dramatic disintegration on the economic front. In fact, the two are but different aspects of the same phenomenon – but it is with the less familiar and often covert operations of the new elite that I am here concerned.

I begin with an example of these operations that is in the open, however, and that nobody who is anxious to preserve his respectability as a civilized citizen can challenge with impunity – the state's subventions (through an independent agency) to support what are expansively called the "Arts." These cover all sorts of activities from the finest opera at Covent Garden to a brutally pornographic magazine (which is no doubt regarded as suitable for subsidy because it is written by sophisticated pens and has on its board of editorial advisers some members of the arts establishment). Likewise, grants have been given to a man who paints pictures of excreta mainly (as he explained to an inquiring press) to "introduce a discordant note," and to various other exercises in obscenity.

Nobody could deny that the state has a role to play in preserving the culture which we have inherited and which has been tried and tested by time. The state is the proper custodian of national museums and art collections; it rightly supports opera which (created in an age when private patrons supported the great composers with their own judgment and money) could otherwise not survive because of the prohibitive cost. What should be (but is not) challenged is the granting of money to the non-accountable Arts Council, which is as free to support brothel-culture as grand opera and which enables the coterie-minded committee-sitters and culture "experts" to play the role of Maecenas with smug satisfaction out of the public purse. And if they choose (as they sometimes do) to subsidize experiments in what amounts to cultural alienation, and which are unrepresentative of any genuine public taste, that is entirely a matter

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for their own discretion.

It is not simply the waste of public money that matters. No less important is the fact that it can be used to manipulate taste and social attitudes. In this respect, the work of the "experts" who disburse it bears a certain resemblance to that of other non-accountable agencies which are provided with public money voted by Parliament but over whose spending Parliament has given control to experts and lobbyists operating as social engineers in the penumbra of public life.

Sex Discrimination

Thus, we have the Equal Opportunities Commission which provides resources and propaganda to encourage the kind of sex equality which rejoices in every little girl who wants to become a long-distance truck driver and every little boy who aspires to be a midwife. Under the auspices of this Commission, children's books are assiduously combed for such offending material as pictures which suggest that it is some kind of norm for a boy to help his father in the garden or with carpentering, while his sister is sewing or helping her mother wash up. The enthusiasm of egalitarians and libertarians to secure the suppression of such "stereotyping" material makes a bizarre contrast with the reluctance many of them have to countenance any restraint on the brutally obscene material that is now allowed to circulate freely, whatever evidence of its antisocial consequences is produced.

The strongest weapon employed in this sort of social engineering is that of litigation. Not to employ a woman is to risk being sued for not employing her *because* she is a woman. This is also the method used by the new intellectual establishment to deal with "racism." Thus, to take a recent case at random, the Commission for Racial Equality is supporting an action by seven Bangladeshi workers against the state-owned British Steel Corporation, which is accused of what is curiously described as indirect discrimination. The grounds of the case are that the Bangladeshis, having given up their jobs as laborers in 1976 in order to take prolonged holidays in Bangladesh, were unable to get jobs with the Corporation on their return to Britain, because they failed to pass the language and reading tests which British Steel now requires (in the interest of observing safety precautions) under recent health and safety

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legislation. The outcome of this case is not yet known, but should it be successful, other Asian workers, likewise with the support of the CRE, are said to intend similar actions.

Such bodies as the E.O.C. and the C.R.E. are, of course, carefully constructed so as to convey the reassurance that they are in no way politically partisan. Conservatives balance socialists in their upper reaches as chairmen or vice-chairmen and, of course, it is easy to understand why some conservatives are prepared to participate in bodies whose transcendent objectives (good race relations and fair treatment for women) are such that nobody of good will would wish in principle to quarrel with them. Of course, anyone of any race should have equal opportunity in respect to employment – other things being equal. The trouble is that other things seldom are equal. Similarly, some of the legislation concerning women is plainly justified, notably that which concerns property rights, for instance. But much of it is foolish and flies in the face of common sense. The trouble is that both the legislation and the bodies which administer it have become vehicles for wholesale social engineering by quasi-judicial and quasi-administrative bodies which, having the status of political neutrality, nevertheless operate under an intellectual power derived very largely from the ethics and politics of the Left and its determination to recast society and human nature in an image of which it approves.

The same is substantially true of many of the quasi-government organizations (the "quangos") which have proliferated recently. These include a whole range of different bodies from the tribunals that administer the law in a kind of politicized judicial process that has been removed from the ordinary judicial procedures to the various consumer and consultative councils which are attached to nationalized industries and welfare organizations to speak on the citizen's behalf. In a number of these bodies, there is evidence of a deliberate intention by Labor ministers who have the patronage of appointments to remove members who are of conservative or other sympathies and replace them with sympathizers of the Left.

'Quango' Patronage

Of course, all British governments have tended to use their power of patronage to reward their supporters when they can and when vacancies occur. But under Labor government the

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process of removing others to make room for friends appears to have been adopted much more systematically on boards which, for example, are supposed to represent the public in relation to the health service or nationalized utilities such as gas and electricity, where obviously a balance of independent opinion is important. This, however, is not the most significant aspect of "quango" patronage. More serious is the way in which Labor stacked its friends on new tribunals which have quasi-judicial functions and whose members are appointed by a minister to interpret law which he (or his party) may have been responsible for putting on the statute book. Two important examples of this kind of body which are influential in dealing with Britain's labor and industrial relations problems are ACAS (the Advisory, Conciliation and Arbitration Service) and the CAC (the Central Arbitration Committee) which were set up under the Labor Government's Employment Protection Act.

The function of ACAS is to prepare reports and findings on labor relations cases brought before it, while the CAC is the final court of appeal in trade union recognition cases. ACAS can refer its findings, if they are not implemented, to the CAC, which has the power to make a recommendation and order compliance. Both these bodies (whose membership has greatly increased lately by ministerial decision) are overwhelmingly composed of friends of Labor and the Left, including many trade union leaders (who are often pluralist members of a number of "quangos") and left-sympathizing academics. Together, such quangos constitute a nexus of politically like-minded people — part of the new elite which dispenses the contemporary brand of political and social "law" and largely determines the prevailing intellectual climate.

The influence of the left-inclined new elite, however, is not confined to the agencies of government and the bodies which ministers appoint. It goes deeper and wider and is not confined to "official" bodies dependent on Labor ministers. It is such an important feature of British life today that even Conservative ministers have often found it necessary to temporize and compromise with policies which have their drive from the other end of the political spectrum.

In office, the Conservatives last time showed notable hesitation in attempting any serious resistance to the prevailing ethos. This was not because that ethos reflected a popular opinion which the Conservatives were afraid to flout; on the contrary.

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The truth is rather that, to a remarkable extent, the politicians of all parties have been enthralled by an intellectual climate and by a left-inclined elite. Although the instincts of that elite are often the very opposite of those of the majority of ordinary and reasonable citizens, it can nevertheless instill fear in the hearts of politicians because of its pervasive influence with the media and, therefore, with the short-term manipulation of public responses.

Like many other countries, Britain has lived through twenty years of exceptionally rapid social change, much of which has been promoted by legislative or ministerial action. Yet, though it is the politicians who draft and pass the laws that determine the kind of society we live in, it is not they who represent its driving force. There is a sense in which this has always been an historical truth. There is a legendary tale of the French Revolution in which a harassed-looking man, tailing after a mob, was asked why he followed it. "I have to," was his reply, "I am its leader." Much the same might be said of politicians in a democracy. They give the final direction to policy, prescribing what seems to them to be the desired outcome, bearing in mind all the evidence before them and the facts of power.

The New Elite

Yet, beneath the facade of their urbane certainty, they for the most part follow where others lead. But who are these others? Despite the appurtenances of democracy, the "others" who lead today are seldom the majority, but the new elite which determines social and political "morality" and prescribes the respectability of this or that belief. On the face of it, this elite is "moderate" or "centrist" though the ultimate logic of its attitudes points, I believe, clearly to the Left, and certainly the far Left supports (and so long as it is in opposition will continue to support) most of its social libertarian attitudes. The new elite has now become so well entrenched in public life, covertly and overtly, that it is dangerous to the credibility of any public figure who wishes to be taken seriously to subject its ideas to any stringent analysis or forthright challenge.

Now it may well be replied that it never was the "people" whom politicians followed, but rather the political philosophers, the revolutionary thinkers, the theologians and the economists who provided the ideas and ideologies. It is also true that in most ages, politicians have been the instruments of some

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aristocracy, oligarchy or other elite; why then should we complain now because the elite is a new one? Previous aristocracies have been easily recognizable for what they were and for the power they wielded. Nobody could have any doubt, for instance, that eighteenth century Britain was governed by the Whig aristocracy and by the power of its patronage, wealth and social position – even by its ideology.

That is not so with today's elite, which to a great extent operates between the lines of public life, using every device available in today's sophisticated means of communication for conditioning the minds of politicians and the public alike.

Although I have observed that the new elite is, in its essential direction, politicized towards the Left, it must be understood that this is far from being the way in which many of them see their role and it is certainly not the way in which they present themselves. For example, on the open party-political level, most of them actually see themselves as bulwarks against the takeover of the Labor Party by the Marxist Left. They see themselves (in American terms) as Kennedy-style liberals with just a little more preference for state ownership and state planning.

That is, for instance, a fair description of the political position of Mr. Roy Jenkins, who was formerly the hero of the Labor social democratic "Right," and who has since departed to the post of Britain's Commissioner to the European Economic Community, having been finally convinced that the faction of the Labor Party which supported him would never be able to make him the party's leader.

Similarly, the former Foreign Secretary, Dr. David Owen, who is normally identified as a member of Labor's right-wing and as bitterly opposed to Labor's Marxist element, displayed attitudes in foreign policy which bear the hallmark of the new elite. Thus, in concert with Mr. Andy Young, he showed an irreconcilable hostility to any solution that could be reached by agreement with Mr. Ian Smith and that would not involve for all practical purposes the unconditional surrender of the white Rhodesians. The thought that Mr. Smith and the whites (after the original offense of declaring unilateral independence) might get away with a peaceful multi-racial outcome without suffering for their sins is a prospect that the race-radicals such as Dr. Owen find quite unbearable. By damning the internal settlement from the start, instead of bringing their influence to bear on Mr. Nkomo to support it, they made sure that any chance

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it had of working (and though it was not a great chance, it was a possibility) faded away.

Behind the positions that these two politicians of the Labor Right have adopted, the new elite has operated with great skill. On Rhodesia, ever since UDI (which, let me make it clear, I regard as a mistaken and a tragic action), they have been working actively to ensure that no compromise settlement could be reached that was politically unacceptable to the radical-left in Britain. Transitional arrangements which might graduate the process of handover sufficiently to be acceptable to the whites have always been attacked as unacceptable to African opinion, which is implicitly depicted as though it already possessed the same sort of capacity to pass a verdict on the niceties of a draft constitution as might be expected from the electorate of a mature democracy. Thus, the chances of a settlement have, in the past, been persistently undermined by the assumption of the race-radicals that any settlement that did not lead quickly to total African democracy must be resisted — a curious form of idealism in the light of African experience elsewhere.

The Role of the Churches

In the development of this attitude, the churches, both Catholic and Protestant, which have been extensively colonized by the radical elite, have played a major role, and specialist church groups on international and racial matters are constantly at work conditioning the public mind through the media to accept their uncompromising and chilly idealism. (The leftist position of the World Council of Churches in the matter is, of course, well known and the same is true of the British Council of Churches: Anglican priests who are members of the B.C.C. have testified to me privately about the difficulty of counteracting its strong leftist tendencies.)

Much the same techniques have been used to achieve other social changes. It was as a result of the unceasing activities of a dedicated pressure group that the abortion law was changed in 1967 in such a way as to enable any doctors who believed in abortion on demand to give it on demand despite assurances given in Parliament that this would not be a consequence. Since then, the abortion figures have risen dramatically, and evidence exists of hair-raising abuses of the system. As a result, a Select

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Committee of the House of Commons was forced on the government by an all-party vote under the second Wilson administration and this Committee produced recommendations for reform. Such was the rage of the liberal abortion lobby, which denied any serious abuses, that pro-abortion Members of Parliament refused to play by the parliamentary conventions and walked off the Committee, hoping thus to destroy it. A concerted press campaign was raised against any amendment of the law, and the power of the pro-abortion lobby, including the Department of Health and Social Security, was such that Ministers refused to bring in a bill based on the Select Committee's proposals. When a private Member of the House of Commons produced such a bill, the government used its control of the parliamentary time-table to kill it. To the abortion lobby any change was unspeakable and undebatable and the vilification of any dissenters was almost comically intense.

Such was the way in which the trick was done with abortion to achieve changes which, if the public could have seen them, would never have secured assent. The same techniques are now being used to achieve euthanasia and the legalization of cannabis.

In the same field of social engineering, the Family Planning Association has managed to get the government to take over the financing and running of birth control clinics which have shouldered the responsibility (at the taxpayers' expense) of dispensing contraceptives on demand without regard for either marital status or, more significantly, the age of the recipient. A Department of Health circular has gone out exonerating doctors from any worry they may feel if they break the law which lays down the age of consent for children, and doctors are encouraged to prescribe for children without informing parents. Thus, we have a new version of dispensing with the law – an offense for which the King of England lost his throne in 1689.

Child Protection Controversy

This contempt for the law of consent is not, however, confined to the DHSS. The Home Office has been persistently badgered by various pressure groups (including the "paedophiles") to abolish or drastically reduce the age of consent. Home Office Ministers have categorically denied any intention of doing so. On the other hand, the Home Office's response to public demands last year that it should legislate to protect

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children from being exploited in child-pornography was to say the least chilly and hostile, as was evident from correspondence I was able to see between the department and a number of M.P.s. Concern was brushed aside on the grounds that there was no evidence that this foul trade existed to any extent in Britain and that if it became a problem, the existing law would suffice to deal with it.

However, to the manifest fury of the Home Office ministers and officials, not to mention the libertarian pressure groups and their media allies, a backbench Member of Parliament brought in a private Child Protection Bill which passed into law with virtually unanimous support. The government was driven to accept it – though protesting to the last that it was unnecessary, and emasculating it where it could.

These things are, of course, far from politics in the conventional sense – the politics of foreign policy, defense, economic management, maintaining the law and social welfare. Yet, what is politics about if it is not about the community? And what is the community about if it is not a framework for the family? All these changes tend towards the undermining of the family responsibility which has always been at the heart of Western society. Of course, society always must and always will change. But the kind of changes we have seen lately have not, as in the past, been the result of organic growth and the free interaction of ideas working slowly like a yeast in society; they have been engineered quickly by the manipulation of the political mechanism, by the use of government money and government-supported organizations which are not accountable to Parliament and by a new elite which has the knack of creating the impression that its ideas are impartial truth. It is a characteristic of the situation that it is to the pressure groups of the new elite (often using neutral sounding designations) that people of the media often automatically address themselves, as though to ultimate authority; their guiding hand is more often than not seen behind both television and newspaper features on their special subjects.

Indeed, the new elite has been so successful in representing any contrary opinion as outside the realm of decent, reasonable and educated behavior that it now requires not simply daring but skillful calculation to challenge its ideas at all if the challenge is not to be counterproductive.

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So well-established is the new elite that respectable people – the civil servants, the committee-sitters, peers of the realm and Members of Parliament, head teachers and even some industrialists – can easily be frightened away from challenging the new dispensation – even when they do not like it. Having destroyed the old taboo on pornography, the new elite has imposed a new one which ridicules any idea of common moral standards (except on the subjects upon which it issues its own social imperatives). It has skillfully established, by its fanatical dedication to defining problems and words in its own way, that fanaticism is always and only to be found among opponents of the new elite. The result has been that much of the cement of shared values which held our society together has been removed. Even traditional ideas of good manners, respect for disciplined learning, for family life or national institutions are often ridiculed as middle-class values.

All this has been done in the name of liberalism, but the result has been to create a kind of moral vacuum, since the key to all this change, whether it is the dominance of the trade union or the pressure group, has been the down-grading of individual responsibility. It also involves the bypassing of the proper processes of democracy through which the politicians ought to respond, within the constraints of reason, to the wishes of the people they are supposed to lead – and that is damaging to confidence in our institutions.

As the new elite has fragmented society and destroyed traditional loyalties, as political questions are settled on the picket-lines or by pressure groups, the danger is clear. Although the fragmentation has been achieved by the activities of those who regard themselves as moderates, the benefit may be reaped by those whose politics are anything but moderate. Political nature abhors confusion; the danger is always that order will be reestablished in a manner which is anything but liberal. The Marxist will support the liberal until Marxism is in power, but not much will be heard of libertarian principles thereafter.

At the height of the labor-union confrontation with the Heath government some four years ago, a Labor M.P., Mr. Michael Meacher, who held minor ministerial office, declared that the postwar settlement between capital and labor was breaking down, but that more was needed before "radical change occurs."

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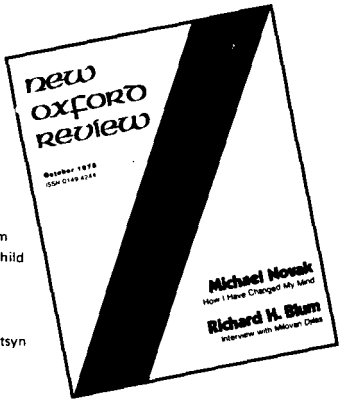
Mr. Meacher went on to say:

> That requires, in combination, a crisis in society (which the present state of the economy foreshadows), a crisis of self-confidence in the governing groups (of which there are definite signs), a crisis of self-identification in a new class . . . and a new élite capable of providing leadership. It is this last condition which is the fundamental task of class politics to provide.

Four years later, I can say that class politics is doing the job very well. The new élite is flourishing.

Mavericks, Conservatives (Neo- and otherwise), Culture Buffs, Social Democrats, Eclectics, and Old-Fashioned Progressives...



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The Market in the Dock[1]

PETER BAUER

Hostility to the market, often expressed virulently, is a conspicuous feature of political and economic discourse in the Third World. The purpose of this essay is to examine the sources of this hostility. But it will be convenient first to set out some distinctive characteristics of the market system.

A market economy is a system and outcome of voluntary transactions in the sense that in a market economy the decentralized decisions of the participants in the market largely determine what is produced, consumed and invested. The participants make their decisions on the basis of their circumstances and inclinations and of market conditions – primarily the prevailing and expected prices and costs and the incomes they expect to secure in different activities. The prices, costs and incomes serve as guides for the direction of their activities and for the deployment of their resources and, at the same time, as devices for ensuring voluntary coordination of people's

1. This essay is based on a paper originally entitled "Market Hostility in Underdeveloped Countries" and presented at a conference on Sources of Market Hostility organized by the Liberty Fund, Inc., held in Hot Springs, Virginia, March 27-29, 1976. I should like to acknowledge with thanks the permission of the Liberty Fund to use here some of the material in that paper.

This essay is a revised version of an earlier piece entitled "Hostility to the Market in Less Developed Countries," which constitutes a chapter in *Capitalism: Sources of Hostility*, edited by Ernest van den Haag (New York: Epoch Books, 1979).

Hostility to the market in this essay denotes both ideas, attitudes, and conditions and also groups, organizations, and institutions promoting this hostility. It will be clear from the context which of these categories is under discussion.

In accordance with familiar usage, the Third World in this essay refers to most of Asia, Africa and Latin America. The shortcomings of this infelicitous concept do not affect the substantive argument of this essay. References to the international organizations are to the United Nations (U.N.) and to its affiliates.

I shall deal with matters of special concern to the contemporary Third World and not with such familiar and more general matters as minimum wages or price controls, or the advocacy of egalitarianism, or measures which reflect religious beliefs or popular mores, such as drink laws or prohibition of the slaughter or consumption of cattle or pigs.

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activities. A market system contrasts with a centrally planned, socialist or collectivist system, in which these matters are determined by centralized governmental decisions. It differs also from the kind of economy under which economic activities are governed largely by custom. All economies are to some extent mixed, in that economic activity is always influenced by government, private decisions, and custom. But the differences are sufficiently pronounced to justify distinguishing among predominantly market economies, centrally planned or socialist economies, and custom-dominated economies.

During the hundred years before the Second World War, in much of Asia, Africa and Latin America (the present Third World), the market system was the principal form of economic organization in the exchange sector and the predominant form in the foreign trade sector and its offshoots. During this period there was large-scale economic progress over much of this area, notably in the Far East, Southeast Asia, West Africa and Latin America. Some coastal areas of China, much of Malaya (now Malaysia), the southern parts of the Gold Coast (now Ghana) and of Nigeria, and many areas of Latin America were among the regions where, under a market system, the material conditions of existence of much of the population were improved radically over this period. And, although the impact of change was often accompanied by considerable strains, these were less violent than might have been expected in view of the extent and speed of change that occurred, for instance, in Southeast Asia and West Africa.

These favorable results should not obscure the inherent limitations of a market system. Neither a market economy nor material progress can secure either political or social contentment or private happiness, as these do not depend on forms of economic organizations or on material progress. Nor can the market system ensure substantial material progress everywhere: governments often pursue policies uncongenial to economic advance, for instance, by discriminating against productive groups or forms of economic activity; and large numbers of people may be unable or unwilling (for perfectly good reasons) to change their traditional mores and modes of life, or they may be reluctant to take advantage of emerging economic opportunities.

These are the limitations of a market system. They should

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not be regarded as defects. Supporters of the market have, however, often failed to acknowledge these unavoidable limitations that are not necessarily undesirable. This, in turn, has made it easier for critics of the market system to denigrate it by treating as defects matters which are only inherent limitations of a system of voluntary economic arrangements.

Since the Second World War the contemporary development literature has been pervaded by hostility to the market system. There is a special problem in identifying the sources of this hostility in the Third World. The influence of Western politicians and intellectuals and of staff members and spokesmen of the official international organizations is a major factor. Further, some of the most vocal representatives of this hostility in the Third World are Westernized or Western-educated people. Thus, much of the hostility to the market that *emanates* from the Third World *originates* in the West.

A caveat may be appropriate here. To emphasize the Western sources and the role of the international organizations in hostility to the market in the Third World is not to suggest that whatever happens there is determined by the West. But, in the generation and maintenance of hostility to the market, the role of the West and of individuals, groups, and organizations supported by the West has been highly significant and perhaps decisive.

Central Planning as an Instrument of Development

Some passages from prominent academics will illustrate the Western origin of hostility to the market in the Third World and the close links between this Western origin and its local expression. Professor Gunnar Myrdal, a Nobel Laureate in economics, has long been an advocate of the idea that comprehensive planning and socialism are necessary for development. In a much-quoted publication, *Development and Underdevelopment*, he notes at some length and with explicit approval that Third World governments now accept and adopt such policies as indispensable for the emergence from poverty and misery. He then goes on to say: "Positive and urgent advice to do so is given to them by all scholars and statesmen in the advanced countries."[2] Elsewhere he has written: "The special advisers to

2. Gunnar Myrdal, *Development and Underdevelopment* (Cairo: National Bank of Egypt, 1956) p. 65.

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underdeveloped countries who have taken the time and trouble to acquaint themselves with the problem, no matter who they are . . . all recommend central planning as the first condition of progress."[3]

I am not concerned for the moment with the merits of central planning as an instrument of development. What I wish to note is Professor Myrdal's contention that governments and experts in advanced countries are unanimous in advising governments of less-developed countries to pursue those policies. It is indeed true that many economists – and some of the most vocal, articulate, and influential academic groups with close contacts with governments, international organizations, the press, and large foundations – express these views and endorse these policies. Moreover, in practice only those who support central planning are acknowledged as experts by the media and these groups and organizations. There are some prominent academic economists who insist that comprehensive planning is demonstrably unnecessary for economic development and, in fact, is much more likely to retard it than to promote it. But on Professor Myrdal's definition they cannot be experts, whatever their technical qualifications, academic position, or field of study.

A notable endorsement of Professor Myrdal's definition or criterion was provided by Professor John P. Lewis of Princeton University, former Director of the U.S. Agency for International Development in India. In *Quiet Crisis in India*, a book which clearly projected official thinking on development policy, he wrote:

> It has been decided in India that it is the duty of government – and it cannot be delegated – to create and maintain that "growth perspective" which, Albert Hirschman has rightly insisted, is the one *sine qua non* for successful economic development. Outside supporters of the Indian development process who refuse to accept this proposition well-nigh disqualify themselves from the outset.[4]

It is difficult to know what Professor Lewis meant by "growth perspective;" but whatever the intended meaning, it cannot conceivably be true that it should be the sole precondition of

3. *An International Economy* (London: Duckworth, 1956) p. 201.
4. *Quiet Crisis in India* (Washington: Brookings Institution, 1962) p. 28.

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economic development. Yet according to Professor Lewis's statement those who do not accept this patently invalid proposition are disqualified from discussion of policy.

Uncompromising opposition to the political and economic arrangements of the market system is reflected in the peroration of a widely-used textbook, *The Economics of Underdeveloped Countries*, by Professor Jagdish Bhagwati, Professor of Economics at MIT and formerly Professor of Economics at the Delhi School of Economics:

> Indeed, for the idealists among us, the challenge of development represents today the kind of invigorating stimulus for sustained action that the Soviet revolution was for progressive opinion after the first world war. This itself constitutes the surest guarantee of a continual, even though halting, transition to an international framework favourable to rapid economic growth in the underdeveloped world.[5]

The thrust of this passage, by an economic theorist of international standing who has served as consultant to international organizations, is unequivocal.

Since the Second World War, critics or outright opponents of the market system have been prominent or even dominant in the contacts between the West and the Third World, especially in the international transmission of ideas and information. What the Third World learns from the West, or about it, or about present and past economic relations between the West and Third World countries comes from or is filtered through people of socialist persuasion who are generally unsympathetic to the market. They are influential or even predominant in international reporting, the wire services, documentary films, and even the arts and entertainment.

Academic contacts between the West and the Third World are dominated by these people. Their influence has been paramount in augmenting the financial and intellectual resources and in enhancing the prestige and effectiveness of opponents of the market. They enjoy a virtual monopoly in the local commissions and delegations of the United Nations and its specialized and affiliated agencies, in the research institutions financed by

5. Jagdish Bhagwati, *The Economics of Underdeveloped Countries* (London: Weidenfeld and Nicolson, World University Library, 1966) p. 244.

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these organizations, in the local operations of the large Western foundations, in international academic exchanges, and in the planning teams supplied by American and British universities to Third World governments.

So strongly entrenched is this bias that the views of market supporters sound eccentric, paradoxical, or bizarre to Third World audiences, even when voiced by prominent persons, whether foreign or local; but especially when advanced by foreign academics. This is so even when what market supporters say is both simple and obvious. Visiting academics address a public saturated with anti-market ideas, derived from practically all Western visitors and the textbooks and other economic literature reaching these countries. The arguments of market supporters are inconsistent with the material interests and the political and emotional inclinations of local academics, politicians, and civil servants. They conflict also with the opinions expressed or endorsed by the resident representatives of the international organizations and the Western foundations and governments, that is, by all major sources of money and patronage.

An example will illustrate the general situation. In 1970 I lectured at a number of leading Indian universities and economic research institutions. Everywhere it was taken for granted that socialist planning is indispensable for raising the standard of living. According to my various hosts (who, I may add, treated me with impeccable courtesy), the only choice was between what they called Chinese and Soviet models of development.

Academic economists unsympathetic to the market system also consistently transmit to the Third World those theoretical developments of contemporary economic analysis that emphasize real or alleged imperfections of the market system, which are the staple of the extensive literature of what has come to be termed "market failure." They do not often examine the costs and consequences of alternatives to the market system, alternatives that are always presented in idealized form.

The prevailing climate puts great pressure on those local academics and businessmen who support the market system. Whatever their actual views, they have to operate in societies with a strong authoritarian tradition, where their professional and financial survival may depend on the rulers or on Western academic, intellectual or financial support. Thus, a market-

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oriented visitor has little chance of making a lasting impact on public opinion. Nonetheless, the visitor can help the few market-oriented local academics and businessmen to maintain their bearings, sanity and self-respect.

Advantages of the Market System in Development

In criticizing the market system, the academic visitors to the Third World and the Western development literature rarely acquaint the people in the Third World with even the most basic and pertinent considerations bearing on the relative merits of the market system and the socialist system in development. For instance, the academic audiences in the Third World and the public at large are not told that central planning played no part in Western development or that many Third World countries progressed rapidly under a market system, that is, without central planning (which, according to Professor Myrdal and many others, is indispensable for material progress) – far more rapidly than did the countries of governments that rejected the market system.

The achievements, real or alleged, of the Soviet Union and of the People's Republic of China are habitually extolled by Western academics who address the Third World and in the development literature reaching Third World readers.[6] The public and the readers are not informed that after half a century of severe hardship and mass coercion, general living standards in the Soviet Union are extremely low or that many people have to be forcibly prevented from leaving the country.[7]

The routine commendations of the achievements of the Soviet Union and of Communist China ignore general living standards, not to speak of personal freedom, but emphasize matters entirely unrelated to these criteria, such as, say, military or political success or specific technical achievements as, for instance, the space program. The academics who praise the Soviet or Communist Chinese systems usually say nothing about the rapid material progress and rising living standards in the

6. The passage from Professor Bhagwati's book quoted earlier in this essay is a characteristic example; it epitomizes the argument of that very widely read book.

7. It is perhaps revealing of living standards in the Soviet Union that in September 1970, three men were sentenced in Moscow to prison sentences of ten, four, and three years for black-market trading in second hand clothes and chewing gum bought from Western tourists.

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twentieth century in the many market economies outside Europe and North America, including Japan, Taiwan, Hong Kong, Singapore, and Malaysia.[8] Altogether these commendations of the Soviet Union and China systematically ignore the far-reaching coercion and the widespread famines in both countries, as well as the attempts of large numbers of people to escape abroad in the face of formidable obstacles. The same academics also manage to ignore the rapid progress in these countries in the decades before the establishment of communist rule.

The Western and Westernized advocates of central planning assume or imply that this policy somehow enlarges the volume of productive resources without explaining how or why. Central planning does not augment resources, but only concentrates power. Indeed, it augments and creates power, because in a decentralized system of decision-making there are no such positions of power as there are under central planning. The politicians and intellectuals in the Third World and the Western academics addressing them habitually take it for granted that central planning is necessary for raising incomes and living standards. This is entirely unfounded. The resources used by the planners are diverted from other public or private uses. It is certainly not clear why the overriding of the decisions of private persons should increase the flow of incomes, let alone the flow of goods and services, which make up the standard of living.

The diversion of resources from the private sector to the agents of the state does, of course, make it possible to enlarge certain sectors or activities, but has nothing to do with raising the general level of incomes or the standard of living. This basic consideration is regularly lost sight of in the advocacy of planning, which focuses on particular activities and disregards their cost as well as consumer demand. It also ignores the wider

8. Here again, Professor Bhagwati's book presents an instructive example. He commends the achievement of the Soviet Union in becoming a great power in a relatively short time. He does so within a discussion of inequality and squalor in a chapter beginning "Affluence thus contrasts sharply with intolerably low income levels in a shrinking world." He only deals with power and does not refer to the extremely low general living standards or wide income differences in the Soviet Union. Nor does he note that Japan became a world power before the First World War in an even shorter time, from a generally low level of technical achievement and without the extensive hardships and large scale coercion of the Soviet system.

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costs and repercussions of the foreseeable collection of resources by the agents of the state and the wider political and social costs and repercussions of coercive policies. The advocates of the replacement of the market by a centrally planned economy also bypass the question of why some people should have the right to coerce others by restricting their range of choice as consumers and producers. This is especially notable and anomalous since the widening of people's choice is often and rightly envisaged as a major or even ultimate benefit of economic progress.[9]

So, far from being indispensable for material advance or rising living standards, the replacement of a market system with central planning actually obstructs material progress. Here are some reasons that this is so:

State controls obstruct the movement of resources into directions where they yield the highest rate. They, therefore, obstruct their most efficient deployment in the Third World. This familiar result is often compounded by such political and administrative pressures as the allocation of licenses, supplies, and employment permits on the basis of ethnic, tribal and other group quotas. By restricting the movement of people between places and jobs, the controls imposed in the name of central planning inhibit the spread of new ideas, crops, methods of production, and new wants and the uncoerced erosion of attitudes and mores adverse to economic advance. Central planning also reinforces the subjection of individuals to authority, which is in any case widespread and traditional in the Third World, and thereby discourages self-reliance, personal provision for the future, curiosity and experimentation, which are encouraged under a market system. Such untoward consequences are also the inescapable results of the restrictions of the volume, variety and local dispersal of external commercial contacts which are concommitants of central planning. Again, extensive controls bring about large-scale politicization of economic and social life, which is conducive to political conflict and to the diversion of people's energies and attention from economic activity to political life.

This list of the adverse effects and implications of central

9. As Sir Arthur Lewis has pointed out: "The advantage of economic growth is not that wealth increases happiness, but that it increases the range of human choice." *The Theory of Economic Growth* (Holmwood, Illinois: Richard D. Irwin, 1955) p. 420.

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planning as an instrument of economic policy and in replacement of a market system could be much extended and developed. These effects are persistently ignored by the detractors of the market system who, in the face of simple general reasoning and of large-scale evidence, keep on telling their Third World audiences that central planning is indispensable for development and welfare.

I have previously discussed the role of Western contacts and especially that of development economists in the creation of hostility to the market in the Third World, notably by their insistence on the necessity of central planning and on the real or alleged shortcomings of the market. I dealt with this influence at length both because I think it to be a particularly important source of market hostility in the Third World and also because it is close to my professional concerns. In the rest of this essay I shall turn to other sources of hostility to the market. In most of these, both Western and local influences and interests interact in varying degrees, but there are few in which Western influences are absent.

A Political Elite in the Third World

The rural population in the Third World, the great majority in most countries, and workers, clerks, or petty traders in the towns evince little sustained hostility to the market. They protest when prices move abruptly against them, but this has little to do with persistent opposition to the market system.

In the Third World, much more so than in the West, the great majority of the population is politically inarticulate and ineffective. In the country areas especially, people at large are not much interested in political or public affairs beyond the village or tribe. Still less can they influence wider political discussion or events. The difference in political effectiveness between the vocal and articulate groups and the unorganized inarticulate groups is usually much wider in the Third World than in the West. The makers of opinion and of policy are the Westernized academics; civil servants and politicians; professional men and intellectuals, especially academic writers and media men; and urban businessmen. In some areas, especially the Middle East and Latin America, religious leaders are also influential in this context. (Army officers often shape the course of events but rarely serve as sources of general ideas.)

In the countries of the Third World, for example, India and

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Sri Lanka, politicians, administrators and intellectuals are often closely associated. Their relative importance as agents of hostility to the market is often difficult to establish and would in any case be often arbitrary because categories frequently overlap. On the whole, intellectuals and civil servants, including local representatives of Western organizations, especially of the official international organizations, tend to be more important than army officers and businessmen or even politicians. The latter groups have less interest in general issues and fewer international intellectual contacts. They may acquiesce in hostility to the market and benefit from it, but they are less able to generate it systematically in public discourse.

The gulf between these groups and the rest of the population promotes a feeling of superiority in the former and a desire, often rationalized as a duty, to control the conduct and especially the economic activities of their fellow men. Moreover, planned and socialized economies promise positions of power and status to intellectuals, which do not exist in a market system. For these reasons they understandably tend to favor the replacement of the market by state control. Some of these ideas and attitudes are, of course, shared by the corresponding groups in the West. They are much more pronounced in the Third World where they can also be translated into practice more easily because of the discrepancies in political effectiveness between the articulate groups and the rest.

The difference in effectiveness there is underlined by other factors than those already mentioned. One of these is the more authoritarian tradition of most of the cultures of the Third World, where the subjection of the individual to the authority of rulers and of custom is more extensive and unquestioned than in the West. In the former colonies of the Western powers the authoritarian tradition was to some extent reinforced by the attitude of civil servants – especially in South Asia and Africa – who often disliked the market and its most active representatives. In particular, they distrusted traders whose activities they often did not understand and who in any case were less amenable to orders and commands than were their own subordinates. Since the 1950s the inclinations and activities of the local representatives of international organizations and of Western aid agencies have worked in the same directions.

A major source of opposition to the market in the Third

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World is Marxist-Leninist ideology. The influence of Marxism and Leninism in the Third World dates perhaps from Lenin's *Imperialism: The Highest Stage of Capitalism*. This has influenced many millions of people who know it only by hearsay. They know, however, that the book has been widely acclaimed, that its author had made himself master of a world power, and that he wrote that Western capitalists exploit the rest of the world. That book and its successors have served as a distinctive source of Third World hostility to the market.

Marxism-Leninism is an intellectual system that claims to explain society; it is also an all-embracing secular messianic creed which promises salvation on earth but in the indefinite future (here but not now); and finally it is a program for political action. This threefold aspect of Marxism-Leninism is central to its appeal.

The major attractions of Marxism-Leninism to Third World intellectuals and politicians lie in the messianic creed and the political program. The comprehensive messianic creed offers some consolation to Third World intellectuals for the loss of traditional beliefs and values. It serves also as a remedy, albeit often only a deceptive remedy, for alienating the rest of the community. In the Third World, the Western-educated or semi-educated intellectuals usually feel much superior to the rest of the community, but at the same time are anxious to belong to it. As a secular materialist, all-embracing faith, Marxism-Leninism offers both a haven to intellectuals who have lost their moorings and a prospect of reunification with the rest of the community. As a political program, it promises power both to intellectuals and to politicians.

The doctrine of exploitation, especially Western exploitation, has evident appeal to Third World politicians. This notion is, of course, part of the wider idea prominent in Marxism-Leninism, but long antedating it: that property incomes, business incomes and especially trading incomes are taken from other people, rather than earned. This longstanding misconception is rampant in the Third World, where it is often compounded with the doctrine of imperialism. Many a local politician has found it useful to insist that the prosperity of the West has been achieved at the expense of his country. This suggestion also helps to explain away failures to meet political promises.

External contacts, certain ethnic minorities, expatriate

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personnel and foreign investment have been major agents of material progress in the Third World. The incomes of ethnic minorities and of resident expatriates have often been higher than those of the more nearly indigenous population. The emotional and political appeal of the idea that the incomes of the relatively well-to-do reflect exploitation rather than production is especially strong when the relatively well-to-do belong to an ethnic minority or to some other clearly distinct minority. All this serves to strengthen animus against the market.

Anti-Market International Organizations

I have already suggested that the official international organizations are a significant source of hostility to the market in the Third World. This influence extends over a very wide geographical area and takes in many different contexts. Some major U.N. organizations and affiliates operate globally, as for instance the U.N. Secretariat, the Food and Agriculture Organization (FAO), the United Nations Conference on Trade and Development (UNCTAD), the International Labor Organization (ILO), the United Nations Industrial Development Organization (UNIDO), the United Nations Development Program (UNDP), and the World Bank. Major regional commissions, the Economic Commission for Asia and the Far East (ECAFE), the Economic Commission for Africa (ECA), and the Economic Commission for Latin America (ECLA), cover the Third World. The United Nations Institute for Development Planning (UNIDP) is in West Africa, but its catchment area is much wider. These various organizations issue and transmit vast literature that is hostile to the market. They also offer patronage, publicity, platforms and other forms of support and influence to Western opponents of the market system. These various organizations are, of course, in constant touch with one another and generally also with opinion-makers unfriendly to the market.

The personnel and proteges of these organizations assiduously spread allegations of the inadequacies of the market and the consequent necessity of central planning for development. They have launched and propagated some of the most widely canvassed and influential notions hostile to the market and to the West. For instance, the UN Secretariat, ECLA and UNCTAD played this role in canvassing the myths that international trade with the West damages the Third World, that the market system inflicts unfavorable and persistently deteriorat-

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ing terms of trade on it, and that extensive restrictions on external commerce with Western countries benefit its peoples.

The United Nations and its offshoots consistently favor Third World governments that try to establish state-controlled economies. They have also often provided them with the personnel for running state export monopolies, state trading companies, planning commissions and other instruments for replacing the market. Some of the ways in which the U.N. and its affiliates have fostered hostility to the market may have been even more far-reaching and significant than those already noted. These organizations have initiated and sponsored the concept of a broadly uniform less-developed world or Third World, with substantially identical interests in conflict with those of the Western market economies. Many of the most influential, energetic and purposeful staff members of the organization consider themselves agents of the Third World, which they project as a united and living brotherhood of societies exploited by the West.

The international organizations also consistently attempt to unite less-developed countries into a bloc in opposition to representatives of the market economy. They organize informal meetings of representatives of Third World countries and prepare briefs for their spokesmen, almost always with an anti-Western thrust. For instance, such a series of meetings was organized by the regional commissions of the United Nations prior to the first UNCTAD in 1964 to brief Third World countries and also to unite them against the West.

These stances and policies also suit various groups and individuals in the West who, for various reasons, have come to dislike their own society and some of its arrangements, especially the market system, hostility to which is often closely allied to hostility to the West. They seem to be engaged in a civil conflict in which they regard the Third World as an ally whose effectiveness for their purposes is enhanced if the Third World can be envisaged as a homogeneous and largely united category, whose government representatives can be relied upon to assail both the West and the market system.

Colonial rule is not necessarily, or generally, unfavorable to a market system. The market flourished in North America before independence, and Hong Kong, one of the few remaining colonies, is perhaps the most market-oriented economy today. An

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effective but limited government, one that maintains law and order and respects voluntary arrangements, while not aiming at a closely-controlled economy, may indeed be favorable for the operation of a market, even if the government is non-elective. In many colonies of the European powers over the hundred years or so before the Second World War, the governments were non-elective and often paternalistic, but nevertheless limited.

Economic Controls: Power Bases for Third World Rulers

In the closing years of colonial rule, limited government was widely abandoned throughout British Africa and Burma. Far-reaching, close state economic controls were then introduced, such as widespread restrictive licensing of economic activity in the exchange sector; strict control of external trade; and the establishment of state trading monopolies, including comprehensive monopolies, over all exports produced by the local population, of which those of British Africa and Burma were only the most familiar. Since their inception, these monopolies have had the sole right to buy in these areas and in many others such staple export crops as cocoa, rice, coffee, cotton and oil seeds. As no other buyers are allowed to operate, these monopolies have been able to pay the producers prices far less than the world market prices. These various controls, especially the export monopolies, have placed the livelihood of much of the population at the mercy of the government.

The incoming independent governments, of course, welcomed these arrangements, which so vastly enhanced their power over their subjects. These independent governments, especially in Africa, could not have introduced, operated or maintained such far-reaching controls without the example set by the colonial governments or without external encouragement and assistance, especially without the huge sums they were able to collect through the state export monopolies.

The replacement of the market by controlled economies in many former colonies has proved durable, and its repercussions have extended beyond these territories. The independent governments maintained and, wherever possible, extended these arrangements which so greatly increased their power and which provided them with ample money and patronage. Some of these controls, again particularly the export monopolies, have served as major power bases of Third World rulers, including out-

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spoken and bitter opponents of the West and of the market system. For instance, the cocoa export monopoly established toward the end of British rule in the Gold Coast served for many years as a power base for Dr. Kwame Nkrumah, the first ruler of independent Ghana, who promoted and even enforced Marxist-Leninist ideas and policies and who became influential far beyond his country.

Some of the major controls introduced toward the end of the colonial period, including the export monopolies of Burma and British Africa, have now operated for well over a generation. The great majority of people there have never known a market economy in the export trade or, indeed, in much of the exchange sector. They take export monopolies for granted, and this reinforces the self-perpetuating tendency of a system of controls that benefits the rulers.

As is clear from the situation in Hong Kong and from much other experience, such an outcome is not a necessary result of colonial rule. Even in British Africa until the late 1920s and in Southeast Asia until much later, British colonial administrators appreciated the role of markets and the functions of traders and often even commended and encouraged the latter. The change came about as a result of various influences, mostly familiar from elsewhere, which reflected the play of political, administrative, ideological and commercial interests and pressures. These included the increase in the number of technicians and administrators who were remote from the realities of economic life and did not understand the operation of the market and whose lack of understanding reinforced their personal interests in the establishment of controls; in the spread of ideologies and intellectual fashions hostile to private economic activity, especially trade; and in the politicization of economic life, especially state economic controls, allegedly in the interests of the population at large, but in fact chiefly for the benefit of politicians and administrators and also, at times, of influential commercial interests, both domestic and expatriate. In one or two instances, including the setting up of the export monopolies in West Africa which served as prototypes for many others, chance also played a major part.

The replacement of the market by controls was often thought to be only temporary, but as so often happens, it has proved lasting – an important and revealing example of the maxim, *rien ne dure comme le provisoire*.

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The advocacy of official aid often both reflects and reinforces hostility to the market. This is so in the suggestion that aid is required to offset the harm inflicted on the Third World by international trade or by Western commerce and in the suggestion that international income differences reflect exploitation. The large role of the international organizations in the advocacy and organization of aid also biases aid against the market.

But official foreign aid by itself tends to operate against the market. It goes to governments and thereby strengthens and expands the state sector compared with the private sector. It also serves as a source of money and patronage. This inherent bias of aid is reinforced by the criteria of allocation, which tend to favor governments with severe and persistent balance of payments difficulties (as these are regarded as evidence of need) and governments that try to run state-controlled economies (this is regarded as evidence of interest in development or welfare).

Churchmen have traditionally disliked the market. In the Third World these sentiments have brought about certain distinctive results very damaging to the ostensible beneficiaries. Missionaries, especially in Africa, have favored the establishment of native or tribal reserves where foreigners and strangers, including people from elsewhere in the same country, were not allowed to settle, acquire property or even trade. This was part of a wider policy intended to protect the indigenous population from commercial intercourse with more advanced or enterprising people. Besides helping along policies of racial and ethnic segregation, these measures have much retarded the material progress of local people by forcing them to remain subsistence producers, retarding the emergence of wider horizons and contacts, and often also increasing their dependence on particular traders. Altogether, the hostility of the Christian churches to traders has helped to shape the Third World policies both in colonial times and since — all too often for the benefit of administrators and established traders and to the detriment of politically inarticulate groups. The revival of Islamic orthodoxy, with its strong anti-commercial ethos, is likely to bring about similar results.

Prominent Western churchmen have also become emphatic exponents of the notion of Western guilt, especially of allegations of Western exploitation of the Third World through

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market forces. They urge at one and the same time large-scale Western aid, restrictions on private Western commerce with the Third World, and private enterprise within it.

Hazards of a Subsistence Economy

Native reserves, restrictions on the activities of traders and state monopolies in the purchase of cash crops, have all discouraged the operation of the market and increased the dependence of people on particular administrators and particular traders. They have greatly damaged the material interests of the population at large and its chances of acquiring wider horizons. Yet, these policies have often been favored by genuinely well-intentioned people, in the belief that the market economy entails disruptive risks, which could be avoided by encouraging or forcing local people to produce food crops or even remain subsistence producers. The underlying idea is that a subsistence economy, though backward, is somehow secure and snug, in contrast to the hazards of a market economy. This is not so. Famines and the worst epidemic and endemic diseases occur in subsistence economies, not in market economies, because the former are very poor and, unlike the latter, they have few or no accumulated reserves, nor do they have access to external resources and reserves. But although the hazards of a subsistence economy are much more severe than those of a market economy, they are more readily accepted, because they appear unavoidable, and the causes seem obvious and certainly not man-made. On the other hand, the causes of economic reverses in a market economy — such as, say, a fall in export prices or a rise in retail prices — are more remote, more plausibly attributed to human greed or incompetence and, therefore, more suspect. For instance, price fluctuations are more often thought to present a case for state control than harvest fluctuations, even when the latter cause greater hardship.

State controls in the Third World have not secured stability in any meaningful sense for the farmers or other economic agents subject to them. These controls and the consequent politicization of life involve hazards more severe and less predictable than those of the market. After all, if agricultural prices fluctuate, it is possible for producers (or, for that matter, governments) to set aside reserves. No such protection is available against the withdrawal of a trading license, the confiscation

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of income or property, or deportation.

Both backwardness and advance in the Third World are often used as sticks with which to beat the market. Comparative backwardness is instanced as evidence of failure of the market system to secure development or prosperity, even if the backwardness plainly reflects mores, attitudes and policies adverse to material progress. At the same time inevitable corollaries of rapid advance, such as have occurred in many Third World market economies in the twentieth century, are also used to criticize the market. As I have already noted, the rapid advance of some of the market economies has entailed fewer and less acute strains than might have been expected or which have indeed accompanied coercive policies by socialist governments – policies which, moreover, have not raised incomes or general living standards. These differences of experience are not surprising. In a market economy people stake their own resources or those of their supporters. Their commercial success and survival depend on correct assessment of local conditions, including attitudes, mores and institutions, as well as more specific market conditions. Those who attempt coercive large-scale modernization of their societies are not so constrained. This is one reason that the disturbing effects of Western commerce on the Third World are partial and gradual, compared with the results of forcible modernization attempted by socialist regimes.

But the large-scale advance in many Third World market economies has inevitably been uneven in that some groups and areas have advanced more rapidly than others. Economic change has also been attended by the prevalence, emergence or extension of economic differences between groups and individuals. The advance necessarily starts in certain activities and areas that are then ahead of the rest. This by itself entails the emergence of income differences. And the differences between people in aptitudes and motivations work in the same direction. When social and economic change is rapid and when some people adapt to it much more readily than do others, considerable tensions may be set up, which are then attributed to the market. Be there stagnation or advance, success or failure, in contemporary discourse the market is always to blame. It is always in the dock, more often than not on palpably unfounded charges. Of course, the same is true in the West; witness the criticism of the so-called consumer society. But, as in so many

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other contexts, forces at work in the West stand out especially clearly in discourse about the Third World.

Finally, there are sources of hostility within the market system itself. Again, these operate also in the West, but they are often more conspicuous over much of the Third World, where people's economic fortunes, at any rate outside subsistence production, have so often come to depend overwhelmingly on government action.

Producers and businessmen everywhere are generally prone to press for controls to restrain competition. For historical and social reasons, restrictive tendencies were ubiquitous and pronounced in the Third World even before the emergence of state-controlled economies and have been more so since then. And there, as elsewhere, interest groups will also support policies leading to higher taxes if they themselves expect to benefit from their spending. Such pressures have become understandably widespread in conditions of extensive government controls.

Economic controls also become attractive if they are thought to be part of a plan that is sold to the public, including businessmen, plausibly but misleadingly, as replacing a chaotic and ineffective system by one based on foresight, reason and method and administered by a disinterested and competent elite. That this picture bears little relation to reality rarely affects the *ex ante* appeal.

While the argument of this essay necessarily involves a measure of conjecture, I am confident that the international organizations and the character of international academic contacts have much to do with hostility to the market in the Third World and in public discourse about the Third World. This role is indeed a pronounced instance of a phenomenon noted more than a generation ago by Hayek in a much-quoted essay:

> In no other field has the predominant influence of the socialist intellectuals been felt more strongly during the last hundred years than in the contacts between different national civilisations . . . It is this which mainly accounts for the extraordinary spectacle that for generations the supposedly 'capitalist' west has been lending its moral and material support almost exclusively to those ideological movements in the countries farther east which aimed at

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undermining western civilization; and that at the same time the information which the western public has obtained about events in central and eastern Europe has almost inevitably been coloured by a socialist bias.[10]

10. "The Intellectuals and Socialism," *The University of Chicago Law Review*, Vol. 16, No. 3, Spring 1949, p. 422.

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A Comment on "The Market in the Dock"

NATHAN GLAZER

Two themes which sound strongly in Peter Bauer's paper encourage me to extend his perceptive and powerful analysis of the dynamics of market hostility in the less-developed countries. I will not repeat here his necessary precautions – that the great variety of countries in the Third World gives the appearance of overgeneralization to almost any comment one might make. Nevertheless, generalizations, taking into account the endless exceptions and glosses each would require, carry some persuasion.

The first theme in Professor Bauer's paper on which I would like to expand is presented early and is often adverted to: "much of the hostility emanating from the Third World originates in the West." Ideas about economies and economics, we all realize, are not automatically derived from experience or from traditional folk wisdom; or, if they are to some extent derived from these sources, these are not the main ways they are shaped. Ideas about economics involve large abstractions about matters not generally part of the traditional concerns of the less-developed countries before Western contact, and thus they must be derived from some process of education different from the transmission of folk or traditional knowledge. They require books, newspapers, schools, universities, elaborated discourse. In this respect, ideas about economics are not very different from, let us say, ideas about the solar system or medicine. There may be a folk component in them, but in the underdeveloped world, as in the developed world, the folk and traditional component in shaping ideas about such matters has been quite overwhelmed by a much larger element coming from the West. There is a strong line of connection thus, important in explaining the sources of market hostility in less-developed countries, between the economic ideas of the intellectuals, political leaders, educators, journalists, radio commentators, and other people of influence in the Third World in the transmission of ideas and the West which must be the source of ideas in such an area as the workings of the economy, as it is the source of the institutions and technical mechanisms whereby these ideas are transmitted.

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Here we come upon an oddity (and there are many more). First, in the developed world, it is that part which has (to the extent any part of the world has) a free market and free political institutions that is overwhelmingly the source of the ideas that influence the developing world. It is not Moscow that shapes the ideas of Third World leaders, teachers, intellectuals, and the like; it is Paris, Rome, and New York. This is not to say that Moscow (and Peking, and Havana) are without influence, but their influence, I would judge, is more political and military than directly intellectual. Or, it is an influence by the power of example (to which we may add, even more strongly, Peking and Havana). But it is Western intellectuals — using that term to apply to the free-market oriented and democratic part of the world — who interpret for the intellectuals of the less-developed countries the supposed economic success of Communist countries and, more significantly, explicate the variety of reasons that one should oppose the market and democratic institutions.

Thus, whatever the success of Moscow in the Third World in distributing books of Marxist classics and Marxist literature in economics, it is not my impression that this vast propaganda flow has much *direct* influence in shaping economic ideas in less-developed countries. As Professor Bauer points out, it is the Western advisors, teachers, and employees of international organizations who are the chief sources of the teaching of hostility to the market. The interpreters of Marx or of other socialists who are influential in the Third World are more likely English, French, or American than Russian (or Chinese or Cuban).

There are obvious reasons for this relative weakness of the Communist countries in being a direct source for the diffusion of ideas. The majority of Third World leaders, teachers, intellectuals and the like have been educated in the democratic capitalist countries, if they have been educated abroad; the curriculums of the local universities in these countries are shaped by influences from Western capitalist countries — teachers and administrators from them. The foreign languages spoken and read by leaders and intellectuals in the less-developed countries are English and French, not Russian. One need not go further than this in trying to explain why the Western sources of the hostility to the market are to be found in the

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free market and democratic countries, rather than in those countries that have suppressed the market.

There is a second oddity when we consider this line of influence more closely. The dominant economic ideas in the field of economics for decades now in the West have been based on the analysis of the free market and explicitly or implicitly have argued its virtues for efficiency, investment decisions, economic growth, and the like. Where in the Western universities – which are the major source of ideas on economics which influence students from the developing world – do we find any substantial concentration of market opponents? One may mention the names of Paul Baran, John Kenneth Galbraith, Gunnar Myrdal, Joan Robinson . . . . but really it appears that the weight of the profession and of the popularizers of economic ideas has been with the supporters of the free market; and even some of those who may be quoted in opposition are not *determined* supporters of statism, but merely supporters of some degree of state intervention in an economic system which they think on the whole should be market-controlled.

We deal here, I am convinced, with a real mystery. The sources of market hostility in the Third World are in the West and the market hostility of the developed Western world is internally generated. But where and how are these ideas generated when the economic profession is controlled by persons who believe in the efficacy of the market, the textbooks for colleges and secondary schools are dominated by these persons, and the newspapers, insofar as they present economic ideas, are, generally speaking, more biased in favor of the market than against it?

I do not know if others are mystified by this phenomenon as I am, but let me give you my personal reason for finding this mystifying. About ten years ago, if one examined the field of American sociology, ideas parallel to and related to the market emphasis in economics dominated. Generally, teachers assigned Marx as reading material only to point out that what he was saying was monistic, naive, time-bound, limited, and that his ideas had to be supplemented by the more complex and pluralistic ideas of Max Weber and other sociologists. C. Wright Mills and Alvin Gouldner were the only major American sociologists who were Marxists. There were few avowed or

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unavowed Marxists teaching sociology and, though there were many socialists and ex-socialists, even these were democratic socialists, pluralist in political outlook, only mild supporters of state intervention for some given purposes in the economy, eclectic in social thinking. In any case, there were no believers in the absolute dominance of a ruling class owning the means of production and no believers in the Marxist and radical socialist analyses that are hostile to diversity and freedom in social life.

There has been a remarkable transformation in ten years or so. Younger teachers of sociology are now completely different from *their* teachers and one wonders where they got their ideas. Students of sociology at Harvard today, in a department in which there are no Marxists or radical socialists among the senior faculty, are concerned with justifying, if not Marx, at least Marxism, or neo-Marxism, and find their sustenance and support in French and German (being students they must show some originality) Marxist or neo-Marxist writers who are not assigned in their classes and whom they discover on their own.

There is an interesting process here, akin to that process by which leaders and intellectuals of the Third World got many of their ideas – not from reading the assigned texts, going to the assigned lectures, or reading the major newspapers. They sought out the ideas they wanted – in informal study groups, meetings of small radical groups, obscure weekly newspapers, monthly "theoretical" magazines, and the like. It is not the case, I believe, that there has been a dominant strain of hostility to the market in the universities and colleges of the Western world in their "official" teaching. There have undoubtedly been such teachers, but the career of Paul Baran shows they have had their difficulties and, even if they have not, they have been countered by far more numerous market supporters. I have in mind the unbalance in the Harvard economics department, which would undoubtedly be considered one of the more liberal ones – the opponents of the market make up perhaps two out of twenty. I suspect the proportions in general are not very different elsewhere. In sociology, which I know somewhat better, I would argue that there is a complete reversal in ideas when we move from the generation of the older teachers – those in the fifties and sixties – to the present generation of young teachers – those in the twenties and thirties.

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Yes, the hostility to the market in less-developed countries – as in the West itself – stems from the West, but I would argue that its own sources in the West are not so clear. These ideas do not reflect the dominant thinking and teaching in the universities and colleges, but are only becoming so as young people, who got their ideas from no official channel, come to dominance in them. This phenomenon affects areas outside the colleges and universities. The mass media, once considered pillars of the market, are now to be considered, I would judge, at best neutral. Consider the change in the ordinary and casual assumptions of writers in *Time* and *Newsweek* and of commentators in radio and television over the past ten years. The defenders of the market, feeling their power ebbing, now take on a querulous tone; they sound like extremists in a society supposedly dominated by the free market and its supporters. I would suggest you tune in on some radio talk shows and check the balance of querulousness and shrillness between the defenders of the free market and free market institutions and those who are critical of them. David Brudnoy, an official conservative commentator on a Boston radio station, sounds more extreme than any democratic socialist would and I would hazard that James Kilpatrick sounds more extreme than Shana Alexander.

We are not without considerable aid in understanding this phenomenon: the work of Lewis Feuer on the political conflicts of generations, of Joseph Schumpeter on the sources of intellectuals' hostility to capitalism, Daniel Bell's recent writing collected in his book, *The Cultural Contradictions of Capitalism*, and some perceptive essays by Irving Kristol. This is not the place for a full analysis of the writings that help us understand why a generation may turn against its teachers or how capitalism creates its own destroyers. Even these important contributions to understanding this phenomenon I find not fully satisfying, because we deal not only with a secular trend but with a peculiarly sharp reversal in popular ideas and of thinking – a reversal for which there is little support in the dominant or official sources of ideas in the past ten years. Undoubtedly, we would have to refer to some specific historical developments, too, to explain what is happening: the Vietnam war, the success of Cuba in stabilizing itself and the supposed success of China in dealing with some of the most difficult problems of

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the Third World (population control, the establishment of a sound national health system, food production, income distribution).

What I find most appealing in the possible explanations for what has happened leads me to a second theme in Professor Bauer's paper, one on which I will comment much more briefly: the isolation felt by Western-educated (and indeed locally-educated) intellectuals and leaders from their own people in the less-developed countries. Professor Bauer writes, "These situations predispose the intellectuals and the educated classes to an all-embracing creed, especially one that promises emotional integration or reintegration with their fellowmen." Undoubtedly this isolation is a far more serious matter in the less-developed countries, where huge gaps separate the educated and influential from the rest of the population, than in the West, where we find lesser discontinuities in income, education, and power, from the top to the bottom of society. And yet the attractiveness of an ideology which promises this emotional reintegration is very powerful in the West, too, for somewhat different reasons. In the West, the attraction of this ideology relates to the fact that social institutions that integrate people — villages, rural communities, families, family businesses, and the like — have either almost disappeared or have undergone great transformation. Perhaps, thus, the force of this desire for reintegration in the West comes from the abstraction of a partially remembered or imagined community of the past and the promise of a reintegrating ideology to build a new community of the future, in which the integrating bonds would derive not from tradition and communal controls but from the state. In the less-developed countries there is a real and startling gap between intellectuals and ordinary people in the present; in the West this gap is much smaller. Thus, when intellectuals, students, journalists, and writers in the West accept an ideology, as they are accepting the ideologies critical and destructive of the market, they paradoxically have a much greater chance of influencing the rest of the society — first, because they make up so much of it and second, because the whole society is so much more closely knit, through mass media, formal education, and the like.

These comments have, I know, scarcely thrown much light on the phenomenon we are analyzing. My objective, however,

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has been to emphasize how *strange* this phenomenon is, strange particularly when considered by people who themselves find nothing appealing in it. The fact is that a suppressed ideology, the ideology of Marxism and hostility to the market – suppressed because its opponents had more money and power, suppressed by governments in much of the world at different times, suppressed by, to my mind, the success of more complex alternative views of the world which bested Marxism in the free competition of ideas in a free world – has shown a remarkable resilience, in the less-developed countries in the West; while the ideas we prefer, those that show the superiority of the free market, despite the fact that they have not (aside from the Communist world) been actively suppressed by the government, seem to have little appeal. What we might consider an underground ideology shows remarkable vitality, despite the fact that it is wrong; ideas we consider much closer to the truth show remarkable weakness, even though (aside from the Communist world) they have the right to circulate freely, they have the at least pusillanimous support of governments, and they have the stronger support of at least one major institution with power and wealth – business. That the suppressed should flourish and the approved and supported should decline – this is, indeed, mystifying, particularly when truth is not on the side of the underground ideology. It will take all our wit and ingenuity in research to understand this phenomenon and to add further to the understanding and insight that those who have been dealing with it – Professor Bauer and some of the others I have mentioned – have already given us.

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The Alpha Kappa Psi Foundation

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for an outstanding article
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by the public.

The article is entitled "Poverty in the United States: A Reevaluation" and was published in *Policy Review*, Spring 1979.

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Energy in the Political Calculus

ENERGY FROM HEAVEN AND EARTH. *By Edward Teller.* (W. H. Freeman & Company, San Francisco, 1979.)

Whenever the truly great minds in the field of physics are listed, along with the names of Newton, Einstein, Szilard, and Fermi, the name Edward Teller invariably appears. Like so many of his contemporaries, Teller came to the United States as a refugee, fleeing the growing terror of Nazi Germany. He played an important role in the Manhattan Project, but it was after the Second World War that Teller made his real mark. Intrigued by the possibilities of creating vast amounts of energy by fusing the nuclei of atoms, rather than splitting or fissioning them as with the more conventional form of nuclear energy, Teller set off on a theoretical course that established the conditions for atomic fusion and eventually made it a reality.

Unlike the stereotypical scientist, Teller has not limited his interests to theoretical physics. He has been a leader in applied science and has been especially interested in nuclear safety and nuclear power generation. This interest led to an increasing concern for the energy prospects facing both his adopted nation and the world. The product of this concern is his new book, *Energy From Heaven and Earth.*

In his introduction, Teller states:

> A real energy problem exists in the United States, in industrialized democracies, and probably even more critically in the Third World . . . No single prescription exists for a solution to the energy problem. Energy conservation is not enough. Petroleum is not enough. Coal is not enough. Nuclear energy is not enough. Solar energy and geothermal energy are not enough, by themselves. Only a proper combination of all of these will suffice.

While the subject and the general tone of Teller's work are serious, he manages to inject a surprising and refreshing degree of humor into his writing. From the table of contents, which contains delightful capsule descriptions of each of the chapters, to his footnotes, Teller's tongue frequently ends up planted firmly in his cheek. An example of this may be found in one of the footnotes to Chapter 7, on "Mining Coal and Other

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Fossil Fuels," which reads:

> There is a legend in Colorado about an early settler who built a cabin and invited his friends to a housewarming. He lit the first fire in his newly built fireplace. To everyone's surprise, the fireplace itself caught fire, and the log cabin burned down with it. The fireplace had been built out of oil shale.

The humorous digressions, such as this footnote, are a welcome relief to the reader and are a major factor in making Teller's work readable as well as informative.

The readability, though, is merely a bonus. The book's real value lies in the fact that it represents what may be the best primer on energy in print today. Drawing on years of experience in teaching and communicating ideas, Teller has the good sense to carefully explain any technical terms that the reader may need to follow his argument and takes great pains to use examples to illustrate his themes. As a result, the reader is not lost in a welter of confusing terms and has concrete examples to which he can relate.

Teller has organized his work in five sections. The first, entitled "Energy's Origins and Sources," begins with the creation of the universe and moves through the formation of the fossil fuels on which we are so dependent. Part II of the book, "Uses From The Recent Past to the Near Future," outlines both the methods by which we have learned to harness our energy resources and the underlying economics of maximizing their production.

In Chapter 5, "Stopping the Waste," Teller makes a crucial point:

> In addition to general inertia, one impediment to conservation is over-regulation. Cogeneration of electricity seems to be one of the straightforward ways to save energy. Why do we in the United States exploit this obvious possibility to such a small extent – in only 5 percent of all electricity production? Government regulations work very differently for industry generally than for utilities; the former are regulated only modestly, while the latter including electric generating plants, are regulated much more stringently. Utilities and general industry seem to exist in different legal worlds. For the twain to meet would require organizational, legal and technical expertise. It is in a word impossible.

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Over-Regulation: A Hindrance to Conservation

Teller's point on over-regulation as a hindrance to conservation is one that the advocates of conservation so frequently miss. The marketplace is perfectly capable of conservation: in fact, whenever a resource begins to become scarce, the marketplace will automatically foster conservation by making it more expensive. This cannot take place, however, if the market is so regulated that it cannot function; and that is exactly the case today.

The capsule description of Chapter 10, "Reactor Safety And The Antinuclear Movement," is a particular gem. The description reads:

> In which opponents of nuclear research appear in the role of that enormous rock Sisyphus tried to roll to the top of the mountain in the Underworld. At great effort, Sisyphus always succeeded; but the rock always rolled down the hill, so he had to start afresh. (Fortunately, the reader will have to read this chapter only once.)

In spite of Dr. Teller's note, however, this chapter in particular bears rereading. He eloquently and convincingly manages to rebut every argument raised by the critics of nuclear safety. Although his chapter was written prior to the accident at Three Mile Island, his arguments still hold true and, if anything, are reinforced. As he notes: "Anyone who imagines he has found a foolproof system is apt to learn that the fool is bigger than the proof."

What is perhaps most important in Teller's book is his analysis of a framework within which a balanced view for formulating energy policy may be developed. This includes several key points:

> Comparisons should be made of hazards resulting from each of the various ways to accomplish a purpose. In our discussion of nuclear reactors it was pointed out that they produce electricity more safely than hydroelectric dams or a number of other sources of electricity. The number of people killed and hurt in automobile accidents is being compared appropriately with the death and injury rate of rail, air, or ship transportation. The comparisons between autos and horse-drawn carriages is almost never made, and it is unclear what the result of such a comparison would be. (Of course, the present density of traffic

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simply could not be obtained with horse-drawn carriages.)

Inquiry into a certain type of accident should bear a reasonable relationship to the probability of that accident. It is remarkable that the effort spent on studies devoted to the danger of liquid natural gas explosions has been less than 1 percent of the effort expended on nuclear reactors, despite the existence of extensive studies showing nuclear reactors to be less dangerous. In particular, mental pictures of the mere possibility of a horrible accident are often given great emphasis without regard to the improbability of the occurrence – an improbability which if expressed somewhat more loosely might even be described as an impossibility.

Translating into dollars the danger to human life or health is improper; it amounts to assigning a certain value to human life. Once the point is raised in this form the great majority of people find the procedure not only impractical but repulsive. It is straightforward and entirely possible to compare danger with danger, but not danger with dollars. The obvious fact should be borne in mind that absence of energy also results in loss of health and is in itself a danger.

One may express the present viewpoint of some environmentalists by the statement that the main environmental pollutant is man himself. The following suggestions might be helpful in this regard.

If a new development, strip mining in Wyoming for instance, requires a massive influx of people into a sparsely populated area, the industry should provide and the state or federal government should regulate accommodations that would minimize the disorder and pollution usually linked to big population movements.

The aesthetic judgment that undisturbed nature is most beautiful has, at best, temporary validity. The word desert has a negative connotation and implies deserted by man. I have in my office a color photo showing a steel bridge spanning the Rio Grande with a mesa in the background and a tree in autumn foliage in the foreground. I am one who considers the contrast beautiful. It is not the job of environmental regulators to lay down the law on questions of beauty . . . ."

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It would seem that Dr. Teller has managed to strike at the heart of the matter. The points he eloquently makes are telling ones, and they lay the groundwork for his proposals for the future. The future Dr. Teller foresees is characterized by increasing scarcity of petroleum and a high degree of electrification. This, of course, can only take place if we fully exploit our nuclear and coal potential. He makes the point that "It is clear that the energy problem demands urgent action. In fact within five years, by 1983, the situation could well turn desperate." The choice, really, is up to us.

James McClure

Fundamental Corporate Rights

IN DEFENSE OF THE CORPORATION. *By Robert Hessen.* (Hoover Institution, Stanford, 1979.)

The target here is the gospel according to Ralph Nader, which goes something like this: The nation is at the mercy of a few hundred giant corporations, run by a self-perpetuating oligarchy of managers who are not accountable to stockholders, workers, consumers, or society at large. These "private governments" employ advertising to sell us things we do not need, with little concern for the safety and health of workers or consumers. The corporate empires must be brought under social control through greater involvement of outside directors, and through federal charters that restrict activities and can be revoked for failure to serve the public interest. It is perfectly reasonable thus to demand that corporations justify their existence by service to the state, since corporate privileges are a gift of government that can be revoked at will.

The Naderite political metaphor ("private governments") is clearly unclear, requiring total confusion about the nature of political power. "A business," explains Hessen, "cannot

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force anyone to work for it, to buy its products, or to invest in it; it cannot conscript capital and manpower or tax a person to pay for a service he neither wants nor uses." In a free market, social control over the corporation is powerful and pervasive. Workers quit if working conditions are unacceptable; consumers abstain from buying products that don't meet their needs; stockholders sell the stock of mismanaged firms, thus prompting better managers to seek promotion by exposing problems or prompting outsiders to take over by buying the cheap stock.

Weakening such market discipline, in order to strengthen government control over business, invariably leads to routine neglect of the desires of consumers. For proof, examine any nationalized industry anywhere in the world. Market control over enterprises is not "democratic," but it is no less real. The specialization of separate management and ownership is not ominous, but enormously constructive. It would not be prudent to buy stock in a company run by the majority vote of thousands of amateurs.

Mr. Nader wants to use federal chartering to keep capital hostage in a narrow field – to prohibit GM from making refrigerators, to ban IBM's entry into the field chartered for Xerox, to keep oil companies from developing alternative fuels. The result could only be a huge loss of competition and innovation, insulating established firms from significant competition. That such a scheme could pass for "anti-monopoly" legislation is truly amazing.

These are some practical difficulties with the Naderite creed, but practicality has never been its motive force. Dr. Hessen digs much deeper into the underlying legal history and philosophy. In the process, he provides a fascinating historical perspective, and carefully exposes Mr. Nader's sloppy scholarship – gross contradictions, factual blunders, misquotes and outright fraud.

Hessen's argument is directed against the "concession theory" of corporations, the notion that government concedes to corporations their rights and powers, and can take those rights away. He wants to show that corporations' rights are inherent in them (the "inherence theory") because those rights stem from individual rights of contract and association that are fundamental to our political system and guaranteed by the Constitution.

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Hessen faces a sticky problem in challenging the concession theory. On the one hand, he argues that corporate rights in the U.S. *never* were conceded by government, *always* were rooted in the concept of individual rights. On the other hand, he must deal with the fact that the apparently fallacious concession theory "is a tenet of orthodox legal theory," and has been from the time of Chief Justice Marshall's famous statement in 1819 that a "corporation is an artificial being, invisible, intangible, and *existing only in contemplation of law.*" In other words, Hessen argues that for two centuries orthodox legal theory has been wrong – an error that must now be corrected because corporations are in danger from the enemies of free enterprise.

The notion that government has the right to strip corporations of their authority over internal organization and decision-making underlies such proposed schemes as those to require corporations to seat "consumer representatives" on their boards of directors, and to require stockholder referenda on each major financial decision of management. In the heat of the argument over whether such requirements would help or hinder economic welfare, the issue of whether such government intervention is legitimate has been obscured.

At the root of the anti-corporate stance of many consumer "advocates" is a firm belief that since the corporation as such is simply a legal form of business organization, corporations are created by the legislators. And since a corporation's rights are delineated in law, those same rights are simply privileges granted by government – privileges that can be modified and repealed.

It is certainly true that a corporation is a legal form. And so is marriage. Yet no one would claim that marriages are created by the government, or that the rights of the family are simply privileges that can be stripped away. Rather, marriage in its legal form is an outgrowth of the rights of individuals, codified in law. Corporate status is likewise an outgrowth of the rights of individuals – specifically, the rights of property and contract. To "modify and repeal" these rights is to alter radically the nature of the political system in which we live.

The so-called "privileges" of corporations most under attack are in fact the characteristics that give a corporation its unique status: perpetual life (beyond that of its current owners), entity status (viewing a corporation for legal purposes as a single individual), and limited liability (protecting corporate owners from being liable for its debts). Each of these defining charac-

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teristics of corporations is traced back to the fundamental rights of contract and property.

Hessen first points out that "corporation" has only relatively recently come to mean a business enterprise. Originally, corporate status was granted by the sovereigns as a special privilege to an important group (such as the medieval Church) or to local governments and trades groups to expedite the collection of taxes and the regulation of legal monopolies. In medieval England, corporate status was indeed a privilege created by government, but under a monarchical system at odds with democratic principles. Unfortunately, that archaic conception of corporations has survived in common law to plague our current understanding.

The modern business corporation is actually a refinement of the business partnership, in which individuals freely contract among themselves to conduct business. This same right of contract underlies each special characteristic of corporations, as can be seen from the fact that all three – perpetual life, entity status, and limited liability – can also be attributes of the general partnership if the partners choose to so contract among themselves and their creditors. Similarly, each characteristic of a corporation can, and often does, simply go by the wayside if the parties involved agree to so contract: for instance, when a creditor insists on a personal pledge or collateral for a loan to a new or risky corporate enterprise.

In brief, the corporate form is simply a kind of shorthand for a certain type of partnership. Declaring a business to be a corporation by chartering under a state government, Hessen observes, serves public notice to collective future creditors and business associates that limited liability, perpetual life and entity status apply. The alternative would be a cumbersome series of individual contracts. The law in this case does not create, but simply expedites a legitimate form of partnership that has been spectacularly successful in promoting the general economic welfare of society.

A close reading of Hessen's well-reasoned and documented analysis is surely essential for today's beleaguered corporate executive.

Alan Reynolds

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Debunking New Racial Stereotypes

RACE AND ECONOMICS. *By Thomas Sowell* (David McKay Co., New York, 1977).
ESSAYS AND DATA ON AMERICAN ETHNIC GROUPS. *Edited by Thomas Sowell* (The Urban Institute, Washington, D.C., 1978).

Race and Economics is essential reading for anyone involved in public policy and its relation to America's minorities. This book illuminates how legislation in the areas of economic policy, labor, housing, education, and regulation affects minorities *in practice. Race and Economics* is a descriptive economic history of how minorities in America have fared economically and socially. The central concern is the current position of the black community in income, status, occupations and, most importantly, in prospects. Information on other ethnic groups establishes the historical context and provides points of comparison in contemporary America.

A startling number of prevalent beliefs about America's "race problem" – beliefs that form the basis of public policy – have little or no factual basis and contradict the previous experience of other ethnic groups. For example, it is said that good race relations are an essential precondition for black economic progress. Not so, says Dr. Sowell, who shows that Jewish incomes improved most dramatically at around the turn of the century, when anti-Semitism was, by all reliable indicators, at its height. Another prevalent belief argues that problems of discrimination can be settled by using the political process to obtain specific "rights" for minorities. Dr. Sowell retorts that creating "rights" is a cheap way for politicians to give the appearance of concern, while actually doing nothing to solve the underlying problem. Furthermore, with a large proportion of the black population now living in urban areas, many people believe that slum clearance and urban renewal programs provide them with major benefits. In actual fact, fewer homes have been built than have been destroyed under these programs, and those homes actually constructed have often been for high income earners.

In *Essays and Data on American Ethnic Groups*, Sowell tackles the controversial question of relative racial IQ levels and

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compellingly argues that there really is very little to explain. IQ levels of blacks are similar to what those of other ethnic groups were at times of similar income and social pathology. Moreover, testing conditions can account for one-half to two-thirds of the difference in average scores between blacks and the general population. Nevertheless, Sowell argues, the issue of whether or not there is something inherently unique about blacks' test scores and the issue of what those scores currently are must be considered separately; the latter issue certainly has implications for public policy. This leads directly to the field of education, where Sowell, in marked contrast to most black political leaders, seems skeptical about the benefits of integration and the costs of segregation. He fears that the quest for integration may have overshadowed the pursuit of educational excellence, thereby depriving the current generation of black schoolchildren of possible opportunities for economic advancement.

Sowell argues that many of the differences between blacks and whites in income and in occupational status can be attributed to the quality of education. One receives the impression that his qualified support of social programs would include a concerted effort to improve blacks' schooling by eliminating the differences between black and white schools in pupil-teacher ratios, in expenditures on textbooks, and particularly in the disparity in teacher qualifications. Indeed, his writing exudes a great faith in the role that education can play in improving blacks' conditions, tempered by a sober realism about the speed with which that advancement is likely to occur. The author sees no "quick fixes" and rightly eschews "grand designs" of the sort so popular with politicians. Militancy, he shows, has caused a lot of commotion and generated a lot of hot air, but its final benefit to the average black American has been immeasurably small.

Conservatives, too, come in for some criticism because of their selective application of essentially sound principles. For example, Sowell notes that conservatives are very ready to condemn welfare chiselers, yet tolerate the restrictive monopolistic practices of the American Medical Association. Social reformers can also cause far more harm than good. Often they see themselves and their role as far different from what their clients would expect. Consequently, they impose "grand designs" such as urban renewal, busing, and the minimum wage,

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and minorities are obliged to accept such "help" without choice, without thought and without comment.

The type of help that Sowell sees as likely to improve the economic conditions of minorities is not the type that creates "caretaker" institutions to make decisions for them. Instead, he would favor experiments with education vouchers, welfare benefits in cash rather than in kind, and the establishment of legal service agencies rather than teams of "expert" social workers.

Underlying all this — indeed a predominant theme throughout both books — is Sowell's argument that the success of all ethnic groups depends on self-reliance among their members. Any scheme of government or private agencies that reduces the scope and necessity of choice and self-help should be condemned outright. Although he borrows selectively from various political creeds, Sowell shows himself in these books as a committed individualist, in stark contrast to the contemporary black leaders whose proposals would make blacks a client constituency of the welfare state. His iconoclasm is obvious, but Sowell bases all his conclusions on voluminous firsthand information. For instance: racism is often uncritically accepted as the sole variable explaining the discrepancy between black and white incomes, but how does this assertion explain the massive discrepancy in income between American blacks as a whole and West Indian blacks concentrated around New York? One suspects that Sowell would say that racialism is no longer the black American's main problem and that misguided social policies now impose the biggest barrier to more success.

I was disappointed that I did not see more discussion of quotas in hiring and of affirmative action; perhaps Sowell could have tested some of the prognoses set forth by Nathan Glazer in *Affirmative Discrimination*. And I found what I considered to be some tenuous overgeneralizations concerning ethnic attributes. But this did not detract from either study; in fact, it could be the springboard for further research.

Race and Economics is an excellent factual introduction, and *Essays and Data* provides more intricate detail about the major issue of race in America. Much bad public policy has been enacted in that area, and new ideas are sorely needed. Interested students would find particularly fruitful research possibilities in policy areas including busing, housing, education, economic policy, and regulation.

Andrew Chalk

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The Higher Naivete

BRITAIN: A FUTURE THAT WORKS. *By Bernard D. Nossiter.* (Houghton Mifflin Co., Boston, 1978.)

American commentators on the British condition tend to fall into two categories. The first is the school of apocalyptic chic. Fashionable and misinformed, uncomprehending and sometimes uncomprehensible, they descend tut-tutting upon Britain every time there is a sterling crisis. (Their obsession with the exchange rate is usually a symptom of their economic illiteracy.) They tour a few selected spots to obtain local color; they glance carelessly at a few statistics; and they reach verdicts particularly prolific with such essentially meaningless terms as "collapse" and "bankruptcy." My favorite example of this breed is the vice president (no less) of an American television network who came to do a Condition-of-Britain program in the wake of a sterling slump not so long ago. After he had been filming in the country for some days, he announced to puzzled British assistants that he wanted to do something on "shortages." "How long," the buffoon inquired, gesturing towards Harrods (of all places), "would I have to wait if I went in there and ordered light bulbs?"

Such, dear American readers, are your eyes and ears on the world!

The other type of commentator lurches to the other extreme. He endures the sort of bad service which he would never put up with in the U.S.A. and pronounces everyone here wonderfully friendly. Or he observes, for example, the National Health Service and is so blinded by the fact that it is "free" that he fails to notice that it is singularly deficient when it comes to curing diseases. He insists on excusing our indolence. He avers that all the bits that fall off his British car are fine items of craftsmanship. He declares that Britain has "something" the U.S.A. has not (which in my view is certainly true), but rarely succeeds in finding it and he ends up by endowing Britain with virtues it does not possess.

Bernard Nossiter, who is the chief of *The Washington Post* bureau in London, has written a view of us in *Britain: A Future That Works.* It manages, with amazing skill, to combine most of

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the absurdities of both approaches. Nossiter is worth studying, not because he is a typically American liberal – though he is, with all the right causes pinned visibly on his breast like a row of medals – but because he exemplifies the sloppy, unthinking methodology which passes these days for the higher journalism (in both our countries).

Nossiter has a particular taste for absurd declarations. We read at one point that pollution had until recently killed *all* the fish in the Thames, that better houses "simply are not . . . sold to colored citizens," that the police assigned to demonstrations and marches carry full length riot shields as a matter of course, that *no* "executive car" taking a businessman home is seen on the roads after 5:30 p.m. This is the sort of nonsense which positively intrigues. It is real no-light-bulbs-at-Harrods material. Has Nossiter, one wonders, ever looked at a map of the Thames (primarily a rural river)? Can he explain how people could be prevented from selling their homes to black or brown people? Or how such people with better homes have acquired them? Can he tell us the magic component in the riot shields that police carry at demonstrations – since they are, on most occasions, totally invisible? And, has Nossiter actually driven on any roads in London at 5:30?

The author uses this sort of sweeping assertion as part of his excuse for writing the book in the first place.* He cites various critics of the British scene such as Milton Friedman, Irving Kristol, the Hudson Institute, certain British journalists and so on. Then, with breathtaking certainty, he declares that "*all* the commentators agreed . . . that the British system was at the end of its tether" (my italics).

A country about which "all the commentators" agreed would indeed be a unique historical phenomenon. Britain certainly does not fall into that category.

Some Examples of Inaccurate Reporting

For a journalist to report so inaccurately is the height of sloppiness. For that journalist to attack other commentators for their slovenly approach to facts seems to me sheer im-

* One gathers his book is meant to be a kind of reply to *The Future That Doesn't Work* (edited by R. Emmett Tyrrell, Jr., Doubleday, N.Y., 1977). This earlier work was reviewed in *Policy Review*, Summer 1977.

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pudence. This inaccuracy is also illustrated in his chapters on the economy. Friedman, for example, has said some silly things about the British economy. Nossiter rebuts them with a look at the statistics. Fair enough. But then he goes on, having rebuked Friedman with a hefty sneer, to "prove" his case about the moderation of British trade unionists by citing the international comparisons of man hours lost through strikes – a statistical snare and delusion if ever there was one. In the light of this approach, it was no joy to learn that Nossiter was once the National Economics Correspondent to *The Washington Post*. One wondered what sweeping nonsense he fed to his American readers in that capacity. American economic journalists, one fears, may be every bit as bad as British economic journalists. In economic policy Nossiter appears at first sight to be not only a liberal but also a Keynesian. But this would be to underrate his versatility. For he is at times a monetarist as well. Thus, the great British inflation of the mid 1970s was, he says, caused by the lax monetary policies of the Heath Administration. The subsequent cure for the inflation, however, has been due to the incomes policy supported so nobly by the trade unions!

Where this book does not deal in plainly controvertible facts, it all too often misleads. Ulster, of course, is misunderstood. "Race" is approached just as if it were the same problem as it is in the U.S.A. and is, thus, massively misunderstood. (Are there no Americans who can understand what the British "race" problem is about?) Nossiter also has a habit of injecting silly sneers into his comments. Thus, the Editor of *The Times* is scorned as writing "from the sanctuary of his office." Well, where else should he write from? The top of a bus?

Nossiter's case for optimism about Britain's future turns on the following beliefs: that Britain is wisely turning from manufacturing to service industries; that the British choice of leisure over goods is deliberate; that the subsidies to the arts are an indication of civilized values; that the usefulness of the loss-making public industries as subsidies of commerce is underrated; that Britain has trade unions which are models for others.

Concerning the latter belief, one can only murmur sadly, "*res ipsa loquitur*." Since the book was published, obdurate trade unionism has driven *The Times* and *The Sunday Times* (the latter, one of Nossiter's curious favorites) out of print.

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As for state subsidies of the arts, it may suit a middle-class person like Nossiter to have his pleasures subsidized by the working classes, which is what art subsidies amount to. But this is not an indication of civilization, only of the political muscle of the arts lobby. Besides, some very uncivilized regimes (for example, Hitler's) have been noted for their generous arts subsidies. Nossiter claims that the choice of leisure over goods by the British people is deliberate. He cannot know. It has been a long time since Britain has had a system which has made it possible for employers to offer an even-handed choice between leisure and real earnings. As for the state sector, Nossiter misses or at any rate avoids the issue. The point is that state industries can "subsidize" and still cause the recipients loss. For example, the British Steel Corporation can simultaneously make a loss and fail to provide steel at a competitive price.

Nossiter's claim to have analyzed the secret of Britain's successful future by detecting the switch into service industries is typically superficial. This is not to say that the trend is not important. Clearly it is. And clearly the British are temperamentally unsuited to factory life. But this is far from new and it is far from clear that Britain is equipped for further big changes in that direction.

The antiquity of the trend is known to anyone who has made even a modest study of Britain's economic history. Britain has had a surplus on her visible trade on only a handful of occasions in the last one hundred years or so. Her service industries have always been crucial. Indeed, there is a view that Britain's role in the Industrial Revolution was an aberration — that she always was a country suited to trade rather than manufacture and that the industrialization of the nineteenth century was an uncharacteristic phase. But, the prospects for Britain as a sophisticated supplier of services are poorer than Nossiter assumes. The progressive educational system which he appears to admire has led to a catastrophic decline in basic standards. The general levels of literacy and numeracy among school graduates are alarming. Precisely at a time when the country needs a work population well-fitted to manning sophisticated service industries, the educational system is churning out, at one end of the scale, hordes of scarcely employable sociologists living hopelessly beyond their intellectual means while at the other, it churns out vast numbers that are equipped for being little more than factory

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fodder. But Nossiter, "writing from the sanctuary of his office," appears neither to notice nor to understand.

The future which Britain faces is, in fact, rather somber and dismaying, with inflation and racial conflict as only two of the grave threats to an otherwise normally stable and agreeable society. But, there is another and longer story, certainly one beyond the one presented by people like Nossiter who are to journalism what the Ugly American was to diplomacy.

Andrew Alexander

The Educational Wasteland

DECADENCE AND RENEWAL IN THE HIGHER LEARNING.
By Russell Kirk. (Gateway Editions, South Bend, Indiana, 1978).

The dust jacket, with its stark pale lettering on a solid black background, conveys the tone of this book.

"Were I to indulge my taste for Jeremiads, I might succeed in outwailing the New Left people at the Ivory Tower's western wall," Russell Kirk reports midway through the volume. To tell the truth, Kirk *has* indulged his taste for jeremiads – *Decadence and Renewal*, yes, but mostly decadence. Only in the last forty pages does the author get around to outlining his program of reform for higher education (an equal space is devoted to the prior question of primary and secondary schooling), and even then he cannot avoid the impulse to instruct by negative example, showing contemporary American schools as models of what *not* to do. Nor is Kirk's tone optimistic. The book is divided into two major sections, entitled "Progressive Decadence" and "Conceivable Renewal." The renewal is "conceivable," not actual, in most cases, or even likely.

But a jeremiad is not inappropriate. The original Jeremiah might not have been a cheery sort, but he survives as a great prophet. And Kirk gives ample reason for his lamentation, reciting an endless catalog of academic transgressions. Decadence, says Kirk (following C.E.M. Joad), comes about when people lose sight of their object. Since American colleges and universities have reached that state, there is no sense

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mincing words. The need for reform — radical reform — is pressing. Wayward academe needs a stern talking-to, and Kirk provides it.

Unfortunately, Kirk is laboring at a disadvantage. He has been writing trenchant criticisms of the American educational Establishment for twenty-five years, and for twenty-five years he has been right. He has advanced the same sound arguments in dozens of books, articles, and columns (to say nothing of speeches), for a quarter-century. So while the evidence continues to pour in to support his charges, and while the academic hierarchy continues blithely to ignore them, Kirk can only pound away at the same neglected points. Even he, with his distinctive stylish prose, has trouble inventing original ways to convey the same truths. The thesaurus boggles.

So the arguments here are not really original. The unifying themes are ones that Kirk has developed more fully elsewhere: purposelessness, intellectual disorder, and gigantism in higher education; enfeebled primary and secondary schooling. Ceaseless repetition has polished Kirk's arguments, and when he does tackle a theoretical question he eviscerates the pat educationist dogmas with striking efficiency. But this is a primer, not a philosophical tract. The reader comes away with a wealth of anecdotes and insights and a list of books that Kirk commends for further research. (He gives insufficient notice to his own books; *Academic Freedom*, his earliest effort in the field, is indispensable.) Through it all, the reader profits from Kirk's inexhaustible store of information, accumulated in the course of a long career as an educational critic.

Kirk subtitles the current volume "An Episodic History of American University and College Since 1953" — 1953 being the year when he resigned his teaching post at Michigan State and became a full-time academic dissident. For each year between then and now, he chooses one specific illustration of academic decadence and reflects on it for the space of a short chapter. At times the connection between dates and reflections seems tenuous. He discusses campus political upheavals in 1967 — when they were rare — rather than in 1970 — when they were ubiquitous. And the year 1976 provokes an unlikely congeries of thoughts on juke boxes, abortion, and the distinctiveness of independent colleges. Nevertheless, the format does serve to emphasize the steady, progressive erosion of academic standards.

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And Kirk does touch all his bases. Take academic freedom, for instance. In 1954 the American professoriate was too busy inveighing against McCarthyism to notice the more immediate dangers from within the academic community. So while the professors pothered over the rights of communists, the President of the University of Nevada summarily dismissed a biologist who had the temerity to question university admissions policies. In 1959, a Berkeley dean prohibited students from joining the InterVarsity Christian Fellowship, a very respectable evangelical group. Queens College systematically rejected Catholic professors in their bids for tenure, and a Brooklyn College panel accused one conservative scholar (why doesn't Kirk name Thomas Molnar?) of being anti-democratic because he rejected the teachings of John Dewey. Intolerance – of traditional beliefs, not new ones – was and is an epidemic on American campuses. This book is larded with such examples proving the author's point. Governmental meddling, secularism, and moral neutrality all receive the same treatment.

Above all, Kirk decries the collapse of academic standards. He left Michigan State because he could not in good conscience remain there while the school eliminated one standard after another in the quest for a massive student enrollment. Under the guidance of President John Hannah (whose sole academic credential, Kirk gleefully notes, was a bachelor's degree in poultry husbandry), a reputable state college grew into an educational monstrosity, trampling any idealism that stood in its way. Soon Michigan State and its sister institutions were offering credit for courses in surfing, flycasting, and square dancing, and awarding doctorates for dissertations comparing different kinds of football helmets. And faculty unions were organizing all the while to protect the perquisites of incompetence.

The young Kirk was evidently traumatized by his experience; even now his recollections are bitter, and the uninformed reader might infer that John Hannah and Michigan State are the root of all academic evil rather than a symbol of decay. Kirk has invented the term "Behemoth State University" to describe, interchangeably, Michigan State itself and the educational gigantism it typifies; he repeats that term throughout the book with implacable monotony.

If Kirk is bitter, who can blame him? Academe spouts a rhetoric of idealism, but in practice American universities have

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lost sight of their goals and their values. Lacking any sense of mission, they try vainly to be all things to all men; thus the corruption of fundamental standards. To this reviewer, who passed through school in the next generation, Kirk's point seems painfully clear. In the early fifties, Kirk could still be shocked by the loss of academic ideals, just as William Buckley could be shocked (in *God and Man at Yale*) to learn that universities subvert traditional cultural values. Today, these truths are self-evident. Therein lies the proof of progressive decadence.

Fortunately, renewal is conceivable. After years of rhapsodic growth, colleges are finally beginning to question their limitations and, in turn, their basic programs. Higher education has become the nation's leading industry; now, belatedly, the critics are being heard. What the universities need is not a new structure or a new system of instruction, but a renewed sense of purpose and a renewed commitment to the search for truth. Kirk does mention specific remedies in his call for renewal, and he cites a number of laudable programs. But he keeps coming back to the same basic point: a true university must be a community "suffused with reverence." Amen.

P.F.L.

New Books and Articles in Public Policy

Raymond Aron (Stephen Cox, trans.)
In Defense of Decadent Europe (Regnery/Gateway, South Bend, Ind.) 1979.
This superb book was originally published in France in time for the crucial election of 1977. It is a defense of liberal Europe. But Europe, having renounced empires of its own but nevertheless cowed by the moral claims of nations intent on extending a socialist one, might also be termed "decadent." "If historical conflicts were settled before a tribunal of law and morality, the defenders of Western Europe would have an easy cause to plead, and a winning case." But the case is more complex now that the West calls its own authority into question.
The book is divided into three parts. The first is a demystification of Marxism, a "worn-out critique," which Marxists have preserved by tacking on "a multitude of confusing hypotheses" to obscure its contra-

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dicted prophesies. The result is "a hodgepodge of prejudices," which Aron calls the Marxist Vulgate. The second part concerns Europe's seeming ignorance of its own superiority. As Aron writes in the introduction, "In terms of productivity, technical innovation, living standards, scientific progress, and human freedom, it is the West, the United States and Europe together, which took the lead during the course of the last thirty years."

The final part indicts the West for its own weakness and confusion. He draws on Tocqueville for a perceptive analysis of the paradox that as Western societies become freer to the point of "paraded license," many intellectuals become more forceful in condemning those societies as "repressive."

Crossroads

Israel Research Institute of Contemporary Society (36 Jaffa Road, P.O. Box 687, Jerusalem, Israel). This new quarterly journal is "an international forum for the exchange of ideas, views, and research findings among scholars concerned with domestic and international dimensions of contemporary society." Edited by Prof. Ilya Zemtsov, the journal devotes primary attention to ideology and practice in the countries of eastern Europe, including the Soviet Union. Special attention is devoted to the Middle East policies of those countries, and to the treatment of Jewish communities within their borders.

The publishing organization, the Israel Research Institute of Contemporary Society, is a non-profit educational group founded in 1978 to advance public understanding (in both Israel and the West) of politics, economics, and society within the Soviet bloc.

Christopher Dobson and Ronald Payne

The Terrorists: Their Weapons, Leaders and Tactics (Facts on File, 119 West 57th St., New York, N.Y. 10019) 1979.

The authors, who have covered international terrorism for the London *Sunday Telegraph*, have written an easily digestible overview of the subject. They cover the recent rise of the phenomenon, as well as its history, the methods, financial support, and weapons. The book concludes with a Who's Who of international terrorist groups.

Yair Evron (ed.)

International Violence: Terrorism, Surprise and Control (The Leonard Davis Institute for International Relations, The Hebrew University of Jerusalem, Israel) 1979.

The papers by twelve scholars that comprise this book were presented at a conference on strategic issues in Jerusalem in 1975. In the introduction, Yair Evron states that during the "heroic" period of modern strategy from the early 1950s through much of the 1960s, three features characterized that strategy: "it dealt primarily with nuclear weapons; it was concerned with superpower relations; and the intellectual developments took place primarily in the United States." The principal objectives of the conference were to contribute to renewed interest in strategy, to shift concentration to non-nuclear and regional subjects, and to treat areas neglected in the earlier period. The authors concentrate on three areas of international violence: terrorism, surprise attack, and arms control.

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International Institute for Strategic Studies

Strategic Survey 1978 (18 Adams St., London WC2 6AL, England) 1979.

In this publication, its annual report, the International Institute for Strategic Studies summarizes and analyzes the key developments on the international scene during the past year. The Institute foresees the most immediate threat to security arising from the instability of Third World countries and cites several reasons why other countries might share Iran's fate: dependence on a single industry which can be disrupted; narrow bases of authority in the government; the conflict between modernization and older, fundamental values; the continuing Soviet willingness to encourage rather than avoid instability. The Institute also sees the emergence of a new Chinese leadership as extremely important, but cautions against exploitation of the Sino-Soviet rift. And despite the failings it sees in the SALT II framework, the Institute believes that the arms control agreement must be passed.

David C. Jordan

Spain, the Monarchy, and the Atlantic Community (Institute for Foreign Policy Analysis, 675 Massachusetts Ave., Cambridge, Mass.) 1979.

This account of post-Franco Spain examines internal developments, including the 1977 and 1979 parliamentary elections, the emerging political leadership, the role of the king, the legality of the Communist Party of Spain, secessionist and self-rule movements, and the prospects for successfully completing the transition to a representative government.

Werner Kaltefleiter, *et al.*

"The American Shield: How Others See It Today," *Public Opinion* (Columbia University Press, 136 S. Broadway, Irvington-on-Hudson, N.Y. 10533) March-Mav 1979.

This opinion survey is really an agglomeration of separate polls in West Germany, Sweden, Great Britain, Japan, and France, detailing public perceptions of the U.S. presence. In West Germany, a declining confidence in NATO coincides with a growing desire for a continuing U.S. military presence. In Sweden, American prestige has fallen steadily, although recovering after the close of the Vietnam war. Britons are preoccupied with the plight of the pound, but their confidence in the United States is dwindling. In Japan the outlook is quite different. In the wake of the revolutionary development in the politics of the East, all major parties (in a development without recent precedent) agree that the U.S. presence is desirable. In France the public mood combines disparate elements, but communist strength is fading.

Ernest Lefever

Amsterdam to Nairobi: The World Council of Churches and the Third World. Foreword by George Will (Ethics and Public Policy Center, Georgetown University, Washington, D.C.) 1979.

This book traces the World Council of Churches from its birth in 1948 through its ever more violent history. Once dominated by churches of Western Europe and North America, the WCC has increasingly become oriented toward and dominated by the Third World, a term that for the

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WCC not only refers to the less-developed nations of Latin America, Africa, and Asia, but is a code word for states oppressed by "neo-colonialism," transnational corporations, and even imperialist Christian missionaries. The WCC, with its Third World and trendy clerical components, is obsessed with white racism, or whatever is viewed as such, and has found a solution in "Liberation Theology." Liberation Theology bears that striking resemblance to Marxism, the proponents of both sharing a world view – revolutionary – and supporting the same means of bringing it about – namely terror. Not content with merely sounding violent, the WCC supports terrorist organizations in Africa with generous grants for their humanitarian purposes. "The WCC grant to the Rhodesian guerrillas was full of irony. Here was a Christian body supporting an organization that had recently killed 35 members of Christian missionary families. Here was a grant given in the name of racial justice to terrorists who were attempting to destroy an interracial regime pledged to majority rule and replace it with a self-appointed ruling elite." Democratic change seems too slow, undramatic, and unfashionable for the WCC. Not surprisingly, the WCC rarely carps about communist regimes. Dr. Lefever, a patient man, concludes with suggested reforms for the WCC, but the reader converted by that time to the theology of the fast, dramatic, and fashionable may want to take more direct action.

Royal United Services Institute

Ten Years of Terrorism (Crane, Russak and Co., New York, N.Y.) 1979. This book is the result of a series of meetings held by the Royal United Services Institute. Views are presented both as lectures and discussions by distinguished contributors from varying fields. As Tony Geraghty, Defense Correspondent for the *Sunday Times* states in the introduction, terrorism is historically linked with orthodox criminal violence, " with the difference that the politically motivated terrorist tends to be more callous in his search for power over other human beings than criminals whose motive is pecuniary." But it has developed into a specialized form of psychological warfare, including what has been called "'nonterritorial terrorism' in which third parties to a quarrel are blackmailed, along with the media, into meeting terrorist demands." Terrorism is particularly a problem for democracies, where the free expression of ideas including political protest is paradoxically accompanied by a sense of powerlessness by many people in controlling their own destinies. In addition to general analysis of the phenomenon, the book covers discussions on terrorism in relation to the media, types of response, political problems, and security force requirements. Among the contributors are Professor Walter Laqueur, Dr. Peter Janke, Professor Max Beloff, Sir Robert Mark, Major-General Richard Clutterbuck, and William Van Straubenzee, M.P.

Lewis W. Walt

The Eleventh Hour (Caroline House, 236 Forest Park Place, Ottawa, Ill. 61350) 1979.

In the Foreword, Eugene Rostow refers to the Baruch Plan of 1947, the American proposal to place the U.S. monopoly of nuclear weapons in the hands of an international agency. The Soviets rejected the plan. "Because of the Soviet decision, we have no choice but to maintain a

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deterrent nuclear capability, and to keep alive the hope of better days to come." The U.S. course has been very much different, according to Gen. Walt. Whatever the rhetoric of the last thirty years has been – "Cold War," "Massive Retaliation," "Mutual Assured Destruction" – the continuing strand of policy, says Gen. Walt, has been to avoid a direct confrontation with the Soviet Union. The result has been a purely defensive policy of reacting to Soviet initiatives and stalling for time. The gap in strategic power is now so great that a surprise attack by the Soviets has become more than thinkable.

Economics and Business

Ake Blomqvist

The Health Care Business: International Evidence on Private versus Public Health Care Systems (The Fraser Institute, 626 Bute St., Vancouver, B. C., Canada V6E 3M1) 1979.

Professor Blomqvist examines the Canadian health services system and finds that it is drifting toward the British system of choice by bureaucrats. The British system promises the best but owing to bureaucratic rigidity necessarily delivers much less. The notion that "everybody should have access to the best possible medical facilities regardless of cost" is an unrealistic one and a barrier to reforming the current system. It is unrealistic because it results in costs greater than society can afford or would be willing to pay. "The equity problem in health care," Professor Blomqvist asserts, "should be viewed in the same way that we view the general problem of welfare": no one for financial reasons should be denied a "decent" standard of care. "The battle cry 'universal access to a minimum level of adequate care' is perhaps not as stirring as 'the best available care for all.' But it is the only sensible one."

The author draws upon comparative health care data from Canada, Britain, Sweden, and the United States to show the increasing inefficiency of the Canadian system. He finds three symptoms for increased bureaucratization on the British model: proposals to transfer physicians to the salary system, bureaucratic determination of hospital costs, and the prospect of "rationing" health care resources. In order to reduce the built-in cost escalation of health care, Blomqvist offers recommendations aimed at increasing competition and choice, reducing conflict of interest, and establishing an economically realistic basis for the delivery of hospital services.

Stuart M. Butler

More Effective Than Bombing (The Adam Smith Institute, 50 Westminster Mansions, Little Smith Street, London WC1, England; P.O. Box 374, Leesburg, Virginia 22075) 1979.

Professor Assar Lindbeck once noted that "In many cases rent control appears to be the most efficient technique presently known to destroy a city – except for bombing." "But," Dr. Butler adds, "while bombing is just as good at ruining the supply of housing as rent control or any government intervention, it has the effect of reducing demand at the same time. Intervention, if anything, must be adjudged more effective in destroying the housing market." One could add that intervention is

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more cost efficient; bombs and planes are expensive; laws are cheap. This concise little pamphlet recounts the results of government intervention in the British housing market: shortages, maldistribution by size, tenant immobility, regressive benefits by income group, plus more run-of-the-mill disasters like blatant political opportunism. Unfortunately, these lessons apply to other countries as well.

Richard A. Epstein

Medical Malpractice: The Case for Contract (Center for Libertarian Studies, 200 Park Ave. South, New York, N.Y. 10003) 1979.

Professor Epstein of the University of Chicago Law School analyzes recent trends in malpractice law. A number of reform proposals are examined, including ceilings on malpractice awards, "no-fault" systems, the doctrine of informed consent, and the subsidization of small claims.

Education

John Chamberlain

Freedom and Independence: The Hillsdale Story; with forewords by William F. Buckley, Jr., and William E. Simon (Hillsdale College Press, Hillsdale, Mich. 49242) 1979.

Since November of 1975 Hillsdale College has engaged HEW officials in a running battle over the question of federal funding. Hillsdale has never requested or accepted federal support, but some of its students do, and so, HEW claims, the entire university falls under the aegis of federal hiring and recruiting guidelines. Hillsdale has refused to cede its independence. The irony of the situation, as Chamberlain points out in this short history, is that Hillsdale has an enviable record of nondiscrimination throughout its existence. This history provides the background for the current battle, showing a school that will not sacrifice principles.

Kenneth Minogue

"Can One Teach 'Political Literacy'?" *Encounter*. June 1979.

This is the curious case of "political literacy." Dr. Minogue critiques a program proposed by a "Hansard Society Working Party" to advance political education in British classrooms. While, the author says, "teachers in schools are authorities to whom children go to learn the dates of battles, the imperfect subjunctive of irregular verbs, and how to solve quadratic equations," teaching "political literacy" may be a different matter. Doubts are raised when the report of the Working Party states "Neutrality is not to be encouraged," after some remarks about the need for fairmindedness. The report proceeds to declare its own bias in favor of activism over "deference." Hence "the ultimate test of political literacy lies in creating a proclivity to action, not in achieving mere theoretical analysis." The ultimate result of this new type literacy, says the author, will be the production of demonstration fodder.

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Paul Seabury (ed.)

Bureaucrats and Brainpower: Government Regulation of Universities (Institute for Contemporary Studies, 260 California St., Suite 811, San Francisco, Cal. 94111) 1979.

Not an expose, as one might conclude from the part before the colon, this book, nevertheless, is about bureaucrats, and the seven authors have managed to produce a readable and incisive volume, despite the unpleasant subject matter. This episode of federal regulations ends in the customary gruesome results, but as each of the authors stresses, regulations on universities started for benign purposes – not to tame an anti-social monster like business, but to extend a positive good, through veterans aid, assistance to the poor, encouragement to professions is short supply, and so forth. In addition, while business has always viewed regulation with hostility, academics at the start looked on it with an approving eye. But, as Nathan Glazer states, the universities have increasingly found that they have "climbed into bed with an 800-pound gorilla rather than a benign teddy bear." The well-known pattern of federal funding and consequent "guidelines" and threats has ruptured the traditional role, function, and independence of education and has produced the lurid sequel: Son of 800-pound Gorilla, featuring a host of terrifying regulations, from mandated discrimination in enrollment and hiring (why do the authors use the phrases "reverse discrimination" and "affirmative action"? – what next? reverse reverse discrimination?) to the increasingly real specter, described by Seabury and Robert Sproull, of prior restraint in academic research.

The other contributors are Richard W. Lyman, Caspar W. Weinberger, Miro M. Todorovich, and Robert S. Hatfield.

Energy

Robert Stobaugh and Daniel Yergin

"After the Second Shock: Pragmatic Energy Strategies," *Foreign Affairs*, Spring 1979.

The recent disruption of Iranian oil shipments, combined with the new OPEC price boost, shattered any lingering complacency about the security of American energy supplies. Stobaugh and Yergin cite the grim statistics that confirm our increasing dependence on foreign oil, making the country subject to external economic and political presssures. Listing the possible remedies, they reject the efficacy of most commonly mentioned solutions. Problems of a technical nature, or political opposition, or sheer cost make most energy alternatives limited in their potential impact. The authors harbor special hopes for solar energy and conservation, however, along with a positive strategy to maximize all other energy production. By a systematic campaign of price decontrols, decentralized decision-making, tax incentives, and public information, they argue, the government could use these sources to bring American energy resources back into balance with domestic demand.

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Political Affairs

F. A. Hayek

Social Justice, Socialism & Democracy (The Centre for Independent Studies, P.O. Box 32, Turramurra 2074, Australia) 1979.

This book is a collection of three lectures delivered in Australia. In the first, Professor Hayek disposes of the phrase "social justice," a phrase so meaningless that it is undefinable even to those who continue to believe in it. It is usually taken to be a synonym for "distributive justice," which is precisely as meaningless, as its advocates cannot say who distributes and what is just. "Individuals might conduct themselves as justly as possible, but as the results for separate persons would neither be intended nor foreseeable by others, the resulting state of affairs could neither be called just nor unjust."

The second lecture, "Socialism and Science," explores the nature of the debate between socialists and their critics, now that few people believe in the existence of historical laws. That debate has dwelt on the question: What is a scientific position and what is a value judgment. "The time is overdue," Hayek states, "to proclaim loudly that intellectually the foundations of socialism are as hollow as they can be, and that opposition to socialism is based, not on different values or on prejudice, but on unrefuted logical argument."

The last is on the incompability of historic constitutional development and modern unlimited democracy. Constitutionalism has advanced with the limitation on power and the expansion of individual choice; the current drift of government is toward the exercise of power, ultimately toward totalitarian democracy.

Robert A. Kessler

"Redressing the Balance: A Proposed Constitutional Amendment," *Harvard Journal of Law and Public Policy* (Langdell Hall, Harvard Law School, Cambridge, Mass. 02138) Summer 1978.

Professor Kessler proposes a constitutional mechanism whereby a decision of the Supreme Court may be overruled by a two-thirds vote of each House of Congress and the concurrence of the President. His proposal could be a very beneficial modification of the greatest paradox in American democracy: the anti-democracy of the judiciary. Far from being "the least dangerous branch," vulnerable to encroachment by the other two branches, the Court has evolved from the Framers' expectation into the supreme branch of government, the branch that decides public policy insulated from the will of the public whose policy is being decided. As Professor Kessler points out, it was the Fourteenth Amendment, with its vague clauses, that changed the Court from a mere interpreter of law into a fount of social wisdom. Whatever doctrine is applied to make sense of the "equal protection" or "due process" clause, the resulting intepretation must be the justices' opinion of what public policy ought to be, as the phrases are so vague and the legislative history of the Amendment so extravagantly confused that strict construction can have no meaning.

Judicial legislating may be very well if one wants to put the Guardians in charge, but it has little to do with democracy and is

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remote from the fundamental theme of constitutional development, that the functions of government should be so limited as to discourage the arbitrary and unexpected exercise of power. We do not expect the judiciary to legislate. The present procedure for repealing judicial legislation, that is, to amend the Constitution, is so drawn out that it almost never goes beyond a few fanfares and outraged speeches; and the device for altering apellate jurisdiction, like court-packing, somehow seems unsavoury. The amendment proposed by Professor Kessler would be a more straight-forward, though with its procedural requirements hardly an everyday occurrence, for changing judicial interpretations of the Constitution, which today may more resemble interpretations of a personal view of the good life.

This inaugural issue of the *Journal* also includes a review by Lawrence J. Siskind of Raoul Berger's gratefully received book, *Government by Judiciary: The Transformation of the Fourteenth Amendment.*

Ronald C. Moe

"The Empty Voting Booth: Fact or Fiction," *Commonsense* (Republican National Committee, 10 First St., S.E., Washington, D.C. 20003)

Every four years after a Presidential election, commentators and candidates profess to being appalled at the low voter turnout. Voter turnout in 1976 was an especially appalling 53.3 percent. Richard Moe, of the Library of Congress, had the ingenious idea of finding out what the 53.3 percent meant. It turns out to mean that 53.3 percent of those counted as potential voters by the Census Bureau cast a ballot for President – that is, 53.3 percent of those eighteen years of age or older without regard to status as alien, incarcerated, unregistered, in-transit, or any other previous condition of not being qualified or able to cast a vote. Further, even if one computes voter participation according to the number of those eligible who cast a ballot for President, the resulting figure is not an accurate reflection of voter participation. Some cast a ballot but did not vote for a candidate for President. That is not necessarily a sign of apathy; it could simply mean "none of the above." And further, as the states are not particularly vigorous in cleansing their voter rolls, the list of eligible voters will include many who have died and many who have moved away. Assuming that six percent of the eligible voters have died or moved, Moe computes the percentage of eligible voters who cast a ballot in 1976 as 90 percent for California; 91.1 percent for Hawaii.

Marian Lief Palley and Michael B. Preston (eds.)

Race, Sex, and Policy Problems (Lexington Books, Lexington, Mass.) 1979.

It is perhaps inevitable that an ambitious book on race and sex would by Chapter 8 arrive at the subject, "Sex and the Burger Court." Any second thoughts that this chapter might not be so interesting after all are confirmed by the part of the title after the colon (for, in keeping with current fashion, all but three of the seventeen chapter titles are graced with colons), and that part reads, "Recent Judicial Policy Making Toward Women." Most of the rest of the chapters are studies and analyses of more conventional policy making, that concerning federal and state bureaucracies and their failure to bring about various

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sorts of equality. The general tone of the twenty-four authors seem to be that now the majority accepts equality of race and sex in theory, it is up to a more vigorous public bureaucracy to implement that attitude. On towards things like "a large female independent middle class." There is something odd about that phrase, but it would probably escape the authors of this book. A proposal for "affirmative action audits" a la I.R.S. is sure to please regulation buffs.

Robert Skidelsky

"Keynes and the Restoration of Liberalism," *Encounter*, April 1979.

Keynes' major contribution to twentieth-century thought, the author argues, was political rather than economic. Whereas his contemporaries in the economics profession analyzed the best means to distribute existing resources, Keynes saw a means of increasing the size of the pie, thereby affording a bigger slice for everyone. By managing aggregate demand according to his prescriptions, the government could increase its own sphere of influence without resorting to increased coercion or redistribution. This Keynesian insight gave rise to a new brand of politics, which emphasized the government's role in manipulating the overall economic growth. Now that Keynesian economic theories have fallen into disrepute, Skidelsky predicts new dangers for the political theories that economic system spawned.

R.B.

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THE NEW PROTECTIONISM
The Welfare State and International Trade

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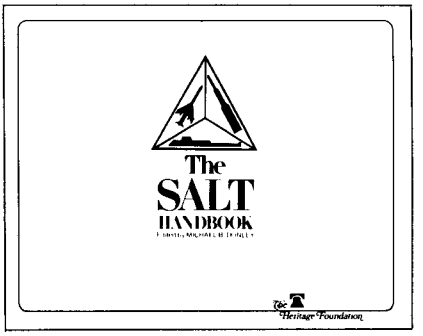

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